Reforms in Lisbon Strategy Implementation: Economic and Social Dimension

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Economic and Social Dimensions

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REFORMS IN LISBON STRATEGY IMPLEMENTATION:
Economic and Social Dimensions

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Contents

Editorial

The international conference on “Reforms in Lisbon Strategy Implementation: Economic and Social Dimensions” was held on 3 May 2006 at the Regent Esplanade Hotel in Zagreb. The conference was jointly organised by the Institute for International Relations from Zagreb and the Friedrich Ebert Foundation. The main goal was to contribute to better understanding of the Lisbon Strategy, seen as a reform framework for EU member states and an important guideline for the countries that aspire to membership.

The conference brought together distinguished panellists, academics and politicians from Belgium, Croatia, the Czech Republic, Hungary, Germany, Poland and Slovenia. It was attended by a number of representatives from Croatian public administration bodies, academia and non-governmental institutions and was well covered by the media.

The debates were organised within three panels. The first one analysed the Lisbon Strategy as a framework for reforms at the EU level. The second and third panels were dedicated to the implementation of Lisbon goals in the new EU member states and to Croatia's preparations as a candidate country for meeting the goals of this agenda.

The conference provided a useful exchange of experience concerning the overall effects of the initial and revised Lisbon Strategy together with its implementing mechanisms and the debates were a form of reaction to the spring European Council conclusions. Furthermore, it contributed to raising awareness of the relevance of the strategy goals for countries in the accession process, bearing in mind the fact that the Lisbon goals were not a highly debated issue in Croatia.

On behalf of the Institute for International Relations, I would like to thank the Friedrich Ebert Stiftung for their successful cooperation during the ten years of their presence in Croatia. I am particularly grateful to Mirko Hempel, head of the Friedrich Ebert Stiftung office in Zagreb, and his staff, as well as to Nenad Zakošek for their inputs during the organisation of the conference and preparation of the book.

Furthermore, I would like to thank all the panellists and chairpersons for their extremely useful presentations and interventions at the conference as well as for their contributions to the book. I would also like to thank all the participants for their active involvement during the meeting, reviewers for their useful comments and suggestions as well as the language editor for the improvements to the material. Finally, my thanks go to all those who were involved in finalising the material, particularly Hrvoje Butković, thus making this editorial effort possible.

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The manuscripts were received in September 2006 with minor updates before printing.

Višnja Samardžija
Editor

Foreword

The European Economic and Social Model (EESM) is undoubtedly one of the most controversial areas within the European Union - especially when it comes to the question: is there a unique "*one-for-all-and-all-for-one approach*" or are there many different mini-EESMs depending on the definition of how to delegate welfare-state responsibilities?

Being part of a basket of common strategies, policies and pacts, the EESM can be described as a permanent "work in progress". The very restrictive Stability and Growth Pact (SGP) and the European Employment Strategy (EES) have to a large extent influenced the discussion about the Lisbon Strategy since the year 2000.

With the inclusion of the Community Charter of Fundamental Social Rights of Workers, commonly known as the Social Charter, into the Treaty of Amsterdam in 1997, the EU gave itself a political instrument that contains moral obligations to guarantee the respect of a variety of social rights such as labour market relations and the working environment, gender issues and equal opportunities, reducing unemployment and creating better quality jobs, as well as improving training.

Since then we have witnessed two major factors of influence: on the one hand, with the accession of 10 new EU member states in 2004, the overall extent of heterogeneous approaches and policies within the EU is on the increase. On the other hand, the deepening and further integration of the European Union produced new structures and institutions of multinational character which need to be dealt with through adequately designed common frameworks.

Consequently, in spring 2005 the EU Commission carried out a "mid-term review" regarding the achievements of the Lisbon Strategy and came to the conclusion that aims and objectives are still valid, but implementation is lagging behind. It became obvious that moral obligations and the chosen Open Method of Coordination (OMC) are not efficient enough by a long way to produce results if there are no tougher instruments of governance in place.

When the Friedrich Ebert Stiftung (FES) and the Institute for International Relations (IMO) in Zagreb organised the international conference "Reforms in Lisbon Strategy Implementation: Economic and Social Dimensions" on 3 May

2006, in Zagreb, Croatia, there could not have been a better time chosen to discuss the entire framework of developments since the mid-term review in 2005 and the current situation regarding the implementation of the Lisbon Strategy, particularly in Croatia, most likely the 28th member state of the EU. The EESM is still a new area of discussion in Croatia and there exist only a few relevant papers and abstracts on the issue that specialise in the Croatian case.

As a result of the conference we decided to produce this publication to provide a useful contribution to public debate in Croatia and within the countries of the European Union.

Finally, I would like to express my sincere gratitude to all those who contributed to this project, in particular Višnja Samardžija from the Institute for International Relations in Zagreb, the editor of the book, for her contributions and the good cooperation with the IMO, the reviewers Ana Maria Boromisa from the Institute for International Relations in Zagreb and Paul Stubbs from the Economic Institute in Zagreb for their valuable advice, Charlotte Huntly for outstanding assistance in language editing of the contributions, Vesna Ibrišimović for an excellent layout and Blanka Smoljan from the Friedrich Ebert Stiftung for all the assistance in tackling the unavoidable administration duties during the conference and in preparation for this publication.

Mirko Hempel
Director
Friedrich Ebert Stiftung
Office for Croatia and Slovenia

Abbreviations

APR	Annual Progress Report
BEPGs	Broad Economic Policy Guidelines
CAE	*Conseil d'Analyse Économique,* Council for Economic Analysis (in France)
CEPS	Centre for European Policy Studies
CLP	Community Lisbon Programme
CODEF	Central Office for Development Strategy and Coordination of EU Funds (in Croatia)
CP	Convergence Programme
CSEE	Central, South-Eastern and Eastern Europe
DIW	*Deutsches Institut für Wirtschaftsforschung,* German Institute for Economic Research
EC	European Community
ECB	European Central Bank
ECE	Economic Commission for Europe
EEA	European Economic Area
EEG	European Economic Guidelines
EES	European Employment Strategy
EESM	European Economic and Social Model
EESC	European Economic and Social Committee
EGs	Employment Guidelines
EMU	European Monetary Union
EMS	European Monetary System
EPC	European Policy Centre
ERM	European Exchange Rate Mechanism
EU	European Union
EU SDS	EU Sustainable Development Strategy
FDI	foreign direct investment
FT	Financial Times
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
GERD	Gross Expenditure on Research and Development
ICT	information and communication technology

IGs	Integrated Guidelines for Growth and Jobs
IGP	Integrated Guidelines Package
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
JIM	Joint Inclusion Memorandum
JAPs	Joint Assessment Papers
MS	member state
NAPs	National Action Plans
NBER	National Bureau of Economic Research (in US)
NCC	National Competitiveness Council (in Croatia)
NGO	non-governmental organisation
NMS	new member state
NPRs	National Progress Reports
NRPs	National Reform Programmes
NSRF	National Strategic Reference Framework
OECD	Organization for Economic Co-operation and Development
OMC	Open Method of Coordination
PEP	Pre-accession Economic Programme
PHARE	Pre-accession Fund (abbreviation initially derived from: Poland and Hungary Action for Restructuring of the Economy)
PPP	purchasing power parity
PPS	purchasing power standard
R&D	research and development
RIA	regulatory impact assessment
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SEE	South-Eastern Europe
SGEI	services of general economic interest
SGI	services of general interest
SGP	Stability and Growth Pact
SME	small and medium-sized enterprises
SPRU	Science and Technology Policy Research
UNCTAD	United Nations Conference on Trade and Development
VAT	value-added tax
WB	World Bank
WTO	World Trade Organization

THE LISBON STRATEGY IN THE WIDER EUROPEAN CONTEXT

Višnja Samardžija

THE LISBON STRATEGY IN THE WIDER EUROPEAN CONTEXT

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SUMMARY

The paper presents an overview of key focuses in papers presented at the international conference "Reforms in Lisbon Strategy Implementation: Economic and Social Dimensions". Its aim is to give an introduction to authors' contributions, putting them into the context of the overall debates that were held during the conference. The key message is that the initial Lisbon Strategy has not been a success due to the lack of political leadership, commitment and ownership on the part of member states, but also due to bad governance and lack of prioritisation. Hopefully the reforms following the mid-term review will result in improved delivery and better results thanks to the more focused objectives, clearer planning and stronger ownership of the process in member states. The experiences and achievements in implementation of the strategy in EU member states show that the situation differs from country to country. Good practice in new member states is particularly useful for Croatia. Although not obligatory, the Lisbon Agenda objectives are relevant for Croatia in the pre-accession stage. The Lisbon Strategy does not introduce additional EU membership criteria but, as was announced in the Commission documents, its objectives will be reflected in the EU's policies towards the whole South-East European region in the areas that can be considered priorities for the countries' overall reforms. This paper continues with the key points from the authors' contributions, including an assessment of Croatia's progress in approaching the Lisbon goals.

WILL EUROPE WIN THE LISBON STRATEGY?

Due to inefficient implementation in many areas in its first stage, the Lisbon Strategy was seen as a synonym for failure in the EU. Its widely set goal to reach world primacy by 2010, which could be expressed in several key words - *competitiveness, dynamism, knowledge-based economy, sustainable economic growth, jobs, social cohesion* - was far from being reached within the first five years of implementation.

The Lisbon Strategy was initially intended to improve Europe's economy and boost employment through approaching certain goals, such as creating an internal market for services, decreasing administrative burdens, improving human capital, reaching the target of raising the level of expenditure on R&D to 3% of GDP, raising the level of the employment rate to 70%. To meet the targeted employment rate, an average annual growth rate of 1.5% until 2010 would be needed, from the difference of 0.7% per year achieved in 2000-2003. The expected growth and investment to boost productivity was missing. Productivity is growing in the US twice as fast as in Europe, due to insufficient expenditure on R&D and low levels of investment (the average annual investment growth in the EU is 1.7% compared to 5.4% in the US).

In spite of the fact that Europe represented 20% of world trade, 30% of global GDP and 45% of FDI, it could not mobilise enough resources to further strengthen its competitiveness. Sustainable growth, full employment and social inclusion were needed to increase competitiveness. European productivity was in decline, as compared to the early 1990s (European Commission, 2005d).

The mid-term review showed that the results were below expectations and that the Lisbon Strategy was not a success. The glass was half empty, not half full. The envisaged reforms were comprehensive, but targets had been set too wide, with an overloaded agenda, and conflicting priorities, poor coordination and mechanisms that were too weak. There was an evident lack of strong leadership based on principles and European values. Although there were positive achievements in some areas, insufficient progress was made in reaching the overall Lisbon goals. The "*delivery*" was disappointing. A lack of clear division of responsibilities between national and EU levels resulted in limited ownership of the process in member states. The economic integration needed coordinated national policy measures which were not achieved. Close partnership between member states and the Community was needed. The results of the first stage of the Lisbon Agenda were limited - economic growth was moderate, R&D did not increase significantly, structural reforms were slow (*Randzio-Plath)*[1].

The EU is facing the combination of two phenomena: globalisation and the information society. Their mutual combination might increase their particular

1. The references to the authors/contributors made in this introductory paper relate to their articles published in this book, unless otherwise stated.

effects and even accelerate the trends. The EU is thus entering a new era, quite different from what Europe has experienced so far (*Zgajewski*).

Globalisation itself is still a challenge bearing in mind the pressure of growing competition not only from industrialised, but also from developing countries. Initially, the key challenge of the Lisbon Strategy was to catch up with EU competitors such as the US and Japan. However, the real (nowadays perhaps even more important) challenges are fast-growing competitors like China, moving quickly from imitating to inventing, and India, developing its services sector efficiently. Emerging developing economies are not only competing through lower costs but also through steadily increasing research and innovation capacities. It became clear that the emerging "new" Asian growth dynamics were overlooked in the global update of the Lisbon Strategy, which initially focused on the competition between the traditional triad (US-EU-Japan), while restructuring the "new international division of labour" was to a great extent underestimated. These new competitors are becoming more and more important and "weigh" more in the longer run, while the technological and innovation gap remains a cause of concern with the US, as well.

Furthermore, Europe is facing other challenges of the modern global economy, particularly the constant and accelerating change - not only in technologies, but in markets, social conditions and business models. Therefore the Lisbon Strategy needs to act as the basis for reaching ambitious objectives through innovation strategy and by investing in the knowledge society. It needs to further the progress of the European internal market (*Randzio-Plath*).

Even the areas where Europe has been better performing, reforms were need, including the European social model. The social dimension of Europe was seen as fundamental for citizens, and comprehensive and integrated social and market reforms were needed to create a Europe of excellence. The link between the employment rate, social inclusion and the sustainability of the European model is one of the elements of the Lisbon objectives intended to achieve higher employment rates. The northern *flexicurity* model, as a mix of flexibility and social security, combining job security, an active labour market, social policies and the skills needed for a knowledge economy, is a case of good practice, bearing in mind the fact that social protection must be given high importance. It is a policy strategy aiming to enhance flexibility of labour markets, work organisation and social security. However, this area needs to be further addressed in the National Reform Programmes of member states. The social dimension of the Lisbon Strategy, even if somewhat virtual, is seen as a blueprint for the future.

Based on the mid-term review recommendations, the renewed Lisbon Strategy was launched at the spring European Council in 2005, placing the main emphasis on knowledge, innovation and the optimisation of human capital. The key issues of the renewed strategy are *growth* and *employment*. Apart from this, the renewed strategy is directed towards enhanced ownership and greater coherence. Implementation is based on a partnership between the Commission and the member states, with the important role given to the Council and the other EU institutions. The programme for reforms was developed at the European level (the Community Lisbon Programme - CLP) and national levels (National Reform Programmes - NRPs). National Lisbon coordinators were appointed and the reporting system was simplified. National reform programmes are evaluated on a yearly basis, thus leading to recommendations for further development.

The renewed Lisbon Strategy aims to increase the EU's ability to create jobs, to raise the capacity for growth through more investment into human resources and to ensure that Europe remains an attractive location for employment and investment.

There are at least two ways to present the current reality of Europe - the *black* and the *pink scenario*. The black scenario could be summarised in a few elements, such as the ageing of the population due to the fact that Europe is becoming a "grey society", old producers facing the challenge of adjusting and catching up with new world competitors, long-term unemployment, particularly for lower qualified people, and weak adaptation to ICT. On the other hand, the pink scenario is the other way of presenting the reality of the European economy. Its starting points are the positive elements in European reality, particularly in the areas where Europe is not performing badly, such as growth per working hour and multifactor productivity, the public debt, environmental situation, etc. Based on this, it could be concluded that the Lisbon Strategy is directed correctly, at least at the level of its diagnosis, which might bring the added value - the transformation into the knowledge-based society.

On the other hand, the present economic situation in Europe has its positive and negative aspects. The message of the European institutions is unbalanced, and mostly negative. Black description with emphasis on disadvantages only has negative implications for public opinion, which needs not only a vision, but a positive perspective. In the history of European integration since 1950, the European institutions have never committed themselves to so many deep reforms. However, the action programme of the Lisbon Strategy is to a great extent insufficient. Resources are too limited, targets on non-economic aspects have been dropped, while initiatives at the European Community level have not been developed enough. The Lisbon Strategy is the first programme of action based mainly on national measures. However, there is a discrepancy between the big ambitions and the limited means of implementation, and this should not be underestimated. These contradictions open a resources problem of instruments and processes, as well as a communication problem, since citizens want to see clear social and environmental perspectives as the outcome of reforms. As a final outcome of limited resources and incentives, results remained weak, and it seems that the EU has delivered results while the implementation of the Lisbon Strategy in member states has still been poor (*Zgajewski*).

There is an opinion that, following the mid-term review, the reforms will, hopefully, bring better results because of enhanced ownership, greater coherence, clearer and more focused objectives with growth and jobs defined as top priorities, and key areas of action, three-year plans and improved implementation instruments. The evaluation in autumn 2006 will reflect the reform capacities and performance of member states. However, increased ownership of the Lisbon Agenda is not addressed by the European institutions and the governments of member states - through participation of national parliaments, social partners and civil society in order to secure effective implementation and credibility (*Randzio-Plath*).

To cope with the challenges of the renewed Lisbon Agenda, Europe will need a lot of new products, new services and new capabilities, the latter being the most crucial element in the new approach.

What is the outcome of the revised strategy? How are the reforms seen by the Commission? How are reactions from the Commission perceived by EU member states, particularly the new members? What experiences should be learned by the present and potential candidates for EU membership? Where is Croatia in this new environment? These are the main questions that were discussed at the conference and in the papers of presenters.

After the fifth EU enlargement the Lisbon goals became even more difficult to reach. The new member states have higher growth rates, but lower employment and productivity rates, while reaching the goal of 3% investment into R&D is more difficult, given the worse starting positions of new member states. The problems of cohesion are becoming more accentuated. The EU population is 20% larger, but GDP has increased by only 5%, and the per capita output has decreased by 12.5%, with strong regional disparities.

The Lisbon Strategy and the effectiveness of new EU member states

The new member states approached the Lisbon Strategy in different ways during their accession process to the EU, but after becoming EU members they all had similar experiences in preparing the National Reform Programmes (NRPs). Namely, the relaunched strategy called for member states to produce comprehensive national reform programmes by November 2005, based on the Integrated Guidelines for Growth and Jobs (IGs). It is still too early to estimate to what extent progress has been achieved at national level, and in which particular areas. Although the approach was basically the same in all the member states, the preparation process (consultation procedures), the extent to which the IGs were used, the exposition of new policies and the degree to which the NRPs concentrate on analysis and have realistic starting assumptions shows that NRPs differ to a great extent (Begg, 2006), even within the new member states.

However, experiences that are relevant for Croatia as a candidate country for EU membership are not just the most recent attempts to prepare and effectively implement the NRPs. It is useful to get insight into the overall preparations of new member states to cope with the implementation of the Lisbon Strategy, including the development and main focus of their national strategic documents, and the organisational structures for implementation and monitoring of the process. Therefore the experiences of the new member states are particularly relevant, and the situation in three new member states was analysed (Slovenia, Hungary and the Czech Republic).

Slovenia is an interesting example for Croatia. Similar to other EU new member states, Slovenia has had to cope with a double challenge. After entering the Union, it had to accept equally all the challenges that apply to the whole EU, and, on the other hand, as a part of the less developed part of the EU, the country must also achieve the goal of bringing the economy to the level of the more developed countries.

From an economic point of view, Slovenia has narrowed its development gap relative to the EU (81% of the average GDP per capita in PPS in the EU, according to Eurostat's estimate for 2005), but catching up has been too slow with respect to set objectives. Macroeconomic stability and economic growth provided good conditions for development and Slovenia recorded positive results in the area of the modern welfare state and employment. In order to achieve the Lisbon Strategy, Slovenia had to continue with structural reforms that will strengthen its competitiveness and raise employment levels, meaning that a change to the previous development pattern was needed. The key question was not whether or not to reform, but when and how.

Development strategies in Slovenia have been an instructive model for other countries since the early stages of its accession process. Furthermore, the framework for implementing the economic and social reforms is instructive, including the bodies responsible, the consultation procedures, the process of implementing and monitoring of the Lisbon Strategy in Slovenia, as well as the mechanisms developed in order to get nationwide support for reforms.

There are several lessons that could be learnt from Slovenia's case. The first one is to have better focus and prioritisation, meaning that it is necessary to focus on proper priorities, in spite of pressure from special interests and political risks. The second one is that improved ownership is needed, which in practice means that the success of any national strategies is not possible without the involvement and full participation of interested stakeholders. This is a way of achieving national ownership of reforms, together with involvement of special institutional arrangements which need to be established. The third conclusion from the Slovenian experience is that it is necessary to establish the best possible communication with citizens. The last one is the need to achieve the best use of the EU, through improving the administrative and absorption capacity for EU funds, which is crucial for approaching the Lisbon goals.

The Czech Republic is another example of a new member state's attempt to respond to the challenges of the Lisbon Agenda. This case underlines the same problem that most new member states faced - entering the EU with health, social and employment policies that are not sufficiently developed to cope with the EU specific policy document demands. This means that there was an urgent need to solve the discrepancy between the enormous public tasks of high employment, capacity building in health and social services, alleviation of poverty, and strengthening social cohesion in the new member states, and their insufficient social, economic and administrative implementation capacities. The EU incentives regarding institution building and transfer of skills around the year 2000 were helpful, but national initiatives of the new member states (one example being the Czech programmatic document on social doctrine) could be seen as an added value to this EU-centred effort (*Hribernik*).

The case of Hungary shows that new member states face the problem of overlapping (and sometimes even conflicting) reform programmes. There is a certain overlap between the NRPs and some other documents that were prepared previously, because they cover a lot of aspects that were already present in other programmes or plans and have overlapping time frames.

For example, in Hungary some of the priorities and planned measures of the NRP were already drawn up in a period when the catching-up process of the economy and macroeconomic stabilisation were high ranking priorities. These goals were drawn up in two strategic documents, the National Strategic Reference Framework (NSRF) that identified main development objectives and was a basis for the efficient use of EU and domestic financial resources, and the Convergence Programme (CP), the fulfilment of which was crucial for preparing the ground for the introduction of the euro.

The objectives of the above-mentioned documents overlapped to a certain extent with the Lisbon objectives. In some areas they could create synergy which could help with the realisation of objectives, but in some aspects they even contradicted each other. All three programmes take into account the actual situation and the mid-term prospects of the economy. However, the Convergence Programme is quite different to the other two programmes, but it could have the effect of strengthening the other two programmes (the successful public sector reform and the reform of territorial units could also help make the use of EU funds more efficient, and thus stimulate the business environment to change towards the Lisbon goals).

At the same time, the NRP contributes to introducing “continuous planning”. Different programmes are built on each other, and provide several reference points and benchmarks in order to check their success. This is valid not only for Hungary, but for all the new and future EU members, which passed the transitional experience where “planning” had a negative connotation for a certain period in the 1990s, and was again positively perceived at the end of that decade, due to the prospect and the pre-conditions of EU accession.

The experience of Hungary shows that, although the Lisbon objectives are important to the country, the primary objective remains the most efficient use of development transfers (the task of the NSRF) and stabilisation of public finances (CP). Until there are no conflicts between the NRP and the two other programmes, the NRP objectives will probably be consistently followed. However, it seems that the NRP will not be the one that matters most, meaning that it could be expected that the Lisbon Agenda is not an issue that will have the highest priority (*Szemlér*).

THE LISBON STRATEGY AS A CHALLENGE FOR THE NEW CANDIDATES

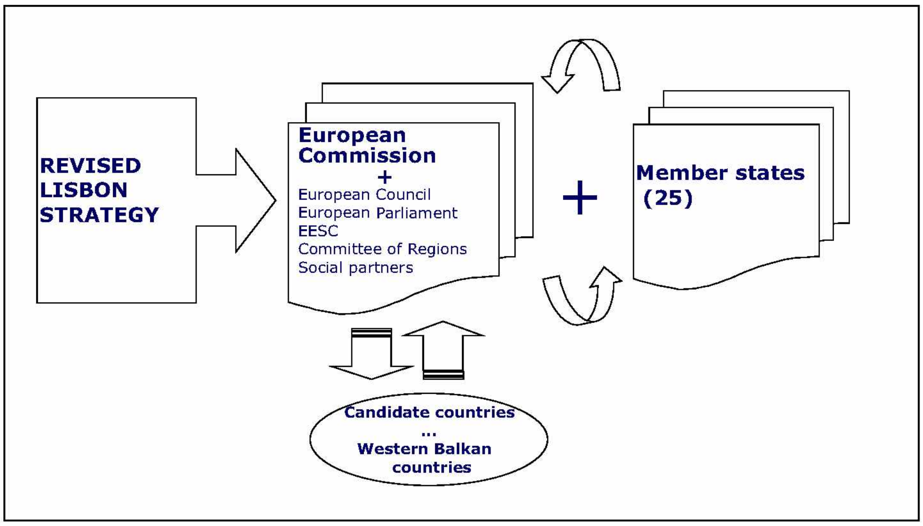
The Lisbon Strategy objectives are relevant for candidate countries during the pre-accession stage. It was also the case with former candidates of the fifth enlargement, remembering the fact that the Barcelona Summit (2002) already highlighted the Lisbon Strategy "*as an incentive for candidate countries to adopt and implement key economic and social environment objectives as a two-way learning process*"[2]. However, the negotiations within the fifth round of enlargement were completed in time before the mid-term review of the Lisbon Strategy, meaning that the importance of the whole Lisbon Process was not so stressed even within the old member states.

The relevance of the Lisbon Agenda for the Western Balkan countries became an issue in 2006. Three years after the Thessaloniki Summit progress in implementing the Thessaloniki instruments was evaluated and certain new issues were introduced. The Lisbon Agenda was one of them, as it was clearly stated that "*... its objectives are also relevant for the Western Balkans. The region should be involved gradually to achieving these objectives, taking into account the level of development of the economies and the individual stage of rapprochement to the EU. The Lisbon objectives will not constitute additional criteria or economic objectives, but the Commission will ensure that its policies towards the region also reflect Lisbon activities that can be considered priorities under the European/Accession Partnerships. The Western Balkan countries should thus start taking into account the Union's Lisbon objectives in their reforms*" (European Commission, 2006a, p.7).

The Lisbon objectives became even more important in the negotiations process due to the fact that these objectives are deeply embedded in many EU policies and thus represent an overall horizontal policy for adjustment. They are not an obligation or new criteria, but many of the instruments of the Lisbon Strategy are a reference point during screening in many areas. Furthermore, it was for the first time that the Lisbon Agenda, as a horizontal policy, was introduced into the screening process for Croatia and Turkey[3]. The strategy is being implemented in partnership between the EU institutions and the member states, while the candidates are involved in various consultative mechanisms during the pre-accession stage.

2. Presidency Conclusions, Barcelona European Council, 15 and 16 March 2002.
3. Multilateral Screening on Lisbon Strategy was held for Croatia and Turkey in Brussels, 23 July 2006. It covered policy aims and instruments for implementing the Lisbon goals.

Figure 1: Revised Lisbon Strategy and candidate countries



Source: Compiled by the author.

Naturally, the countries that are involved in the screening process or have started negotiations have more possibilities and better chances to introduce the Lisbon goals into their policies and thus to approach the envisaged targets more effectively. This is due to the fact that they are involved in different kinds of (economic and other) consultation mechanisms that are, among other things, a process of learning. At the moment this is the case with Croatia and Turkey. The other present and potential candidates (Macedonia and the remaining SAP countries) are gradually introducing the Lisbon goals in the areas covered by European partnerships, at a speed that is in accordance with their own needs and possibilities.

Based on the experiences of new member countries, a recommendation for candidate countries is to take into account the Lisbon Process in the preparation of their reform programme. During the process of harmonising their economies to EU requirements, countries in transition like Croatia should aim towards the economic models and solutions that have to be implemented in current EU member states in order to restore the vitality of their economies. This, however, does mean that candidates should avoid simple imitating the economic policy solutions developed and still present in many EU member states. They should rather combine the Lisbon experiences with the reform framework they have to undertake. There are good examples in some old (Ireland, after 1986) and new EU member states (Slovakia after Meciar, or the Baltic countries) that implemented deep reforms which were usually difficult at the beginning but proved fruitful in the long run. These states, already EU members or aiming to achieve it, put efforts into creating flexible and entrepreneurship-friendly economies with a limited role of the government. The Lisbon Process, while not ideal in its essence and method, can be used as a stimulus for such a policy. However, the effectiveness of the Lisbon Strategy cannot be overestimated, because the most important economic reforms have to be accepted and implemented at the national level, not the EU one (*Radlo*).

THE LISBON STRATEGY AND CROATIA

Croatia has the status of EU candidate and negotiating country. Reaching the level of internal readiness for EU integration by the end of 2007 and full membership in 2009 is a target of the Croatian Government.

To summarise, Croatia applied for EU membership in February 2003 and received positive *avis* in April 2004. The main findings of the *avis* (European Commission, 2004) underlined that Croatia was a functioning democracy with stable institutions guaranteeing the rule of law, and had a functioning market economy which should be able to cope with competitive pressure within the Union in the medium term, with a precondition that it continues implementing reforms. It was noted that Croatia should be in a position to undertake the other obligations of membership in the medium term, if considerable efforts are made to align its legislation with the *acquis* and ensure implementation and enforcement[4]. The *avis* was accompanied by a European Partnership for Croatia which identified the short- and medium-term priorities during the preparation for accession. In June 2004, the European Council confirmed Croatia as having candidate status for EU membership and made a decision on opening negotiations on full membership in due time. The pre-accession strategy for Croatia (October 2004) opened the door for access to pre-accession funds in 2005. The European Council (June 2005) adopted the negotiation framework

4. Similar statement was repeted in the Progress Reports for Croatia published by European Commission in the years that followed.

with Croatia while negotiations were opened at the intergovernmental conference in Brussels on 4 November 2004. By November 2006, the multilateral and bilateral screening was completed and one chapter (Science and Research) was opened and provisionally closed.

As a candidate country for EU accession, Croatia has already undergone comprehensive and demanding reforms. Implementing the Lisbon Strategy and its goals for Croatia is of at least three-fold advantage. It means overcoming transition hardships, assisting in meeting Copenhagen accession criteria, and catching up with the EU competitiveness level that would bring long-term prosperity. Therefore, upgrading of its engagement in all activities related to the Lisbon Agenda is needed. It will not be a process of sequencing, but rather a parallel process to our accession negotiations. This includes embarking on the Lisbon implementation even before Croatia becomes an EU member, though it is not expected to constitute additional criteria or economic objectives for accession.

All candidate countries face the unique opportunity to combine their efforts to meet the Copenhagen economic criteria in full with their efforts to meet the goals of the Lisbon Agenda. In this interrelated endeavour they have substantially increased their interest, contribution and understanding of the Lisbon Process. It is no longer just the business of member states - it is becoming a substantial part of the economic policy of the candidate countries themselves (*Mimica*).

The strategic approach

Being a candidate country, Croatia does not share the same responsibilities regarding the Lisbon Strategy objectives as the EU member states. However, by entering into negotiations on full membership with the EU, Croatia committed itself to accepting the *acquis communautaire*, but also to harmonising policies with EU programmes and strategic documents. Croatia is therefore facing the challenge of (voluntarily) approaching the Lisbon goals together with the basic obligation to fulfil the Copenhagen criteria, although both challenges are not an obligation at this stage[5].

As was already mentioned, the *acquis* under the Lisbon Strategy consists largely of policy principles and policy recommendations which are reflected in

5. Unless otherwise stated, the continuation of this paper brings the main issues underlined in the conference presentation by Višnja Samardžija, which have not been presented in a separate paper in this publication for technical reasons.

communications, recommendations and other sources of *"soft law"*. It is also the subject of consultation fora and exchange of good practice measures. The screening process highlighted some of the areas in which Croatia should start with preparations to implement Lisbon Strategy goals. Primarily these "soft" obligations start with the need to adopt horizontally the Lisbon Agenda instruments, in order to be able to implement policy measures practically.

At the beginning, it means introducing the Lisbon principles into the country's strategic documents. Different to many new member states or acceding countries, Croatia did not prepare "in advance" an action programme to implement the Lisbon Strategy goals in the period before membership was achieved[6]. However, some of the aims and the activities leading to its implementation have been introduced in different strategic documents that were prepared during previous years, after 2000[7].

The most recent Croatian Government strategic document prepared by the Central Office for Development Strategy and Coordination of EU Funds (CODEF), the *Strategic Development Framework 2006-2013*[8]*,* to a great extent introduced Lisbon goals. The document starts from the assumption that economic openness, competitiveness, change in the traditional role of the state, inclusion of all social strata in the results of economic growth and prosperity are basic premises for the completion of Croatia's main strategic goal in the next seven years: growth and employment in a competitive market economy acting within a European welfare state[9]. This strategic goal, according to the document mentioned, is envisaged to be achieved through harmonised and simultaneous

6. There are many examples among new member states showing that the initial Lisbon Strategy action plans were prepared in the pre-accession stage, either by the government bodies (Slovenia) or non-governmental organisations (Romania).
7. For example, the Croatian Government prepared a number of sectoral strategic documents under the common title "Croatia in the 21st Century", and some of them are very much in line with Lisbon goals. This particularly relates to strategy covering science and research, which approaches the issues of the knowledge-based society, and catching up with innovation and new technologies (Croatian Government, 2003). Key Lisbon goals are introduced in 55 recommendations of the National Competitiveness Council, covering all the areas relevant for raising the level of competitiveness in Croatia, including education, innovation and technology development, strengthening of SMEs, creating leadership, etc. (National Competitiveness Council, 2004).
8. The Strategic Development Framework 2006-2013 was adopted at the government session on 3 August 2006.
9. The government expects that successful implementation of the Strategic Development Framework 2006-2013 might result in the increased GDP growth rate of about 5% in the period until 2010 and above 7% after 2010. In 2013, average income per capita is expected to reach 75% of the EU average (measured by GDP per capita according to PPP).

action in ten strategic areas. These are: people; knowledge and education; infrastructure; information inter-connectedness; social cohesion; macroeconomic stability; an efficient financial market; sustainable development; and uniform regional development, accompanied by the new role of the state transformed into an efficient and effective service acting for its citizens and entrepreneurs. Each strategic area identified specific goals as well as measures and actions to be undertaken. This document is part and parcel of our pre-accession commitments. Human resources development is in one of the key issues of the Strategy. Therefore, although the primary goal of the Strategic Development Framework is not focused on the Lisbon Strategy as such, it will be based on its approach and it is to a great extent encompassing its goals and methods.

The above-mentioned document is one of the first documents of its kind that was prepared in consultation with almost all relevant stakeholders in Croatia (government bodies, public institutes, National Competitiveness Council, economic and social partners, civil society) and was followed by public debates[10].

However, bearing in mind the fact that the document does not have an implementation character, there is an urgent need to develop an action plan or other implementation instruments with clear obligations, defined responsibilities, deadlines and reporting system, in order to be able to implement it successfully and in time. Therefore, it will be necessary to prepare an action plan aimed at implementing specific Lisbon reforms. The Croatian Parliament announced that it will maintain a high level of public awareness of this matter and will hold the government accountable for engaging all relevant stakeholders in preparing the future National Reform Programme (*Mimica*).

It was announced by the government that mechanisms for monitoring the implementation of the goals envisaged by the Strategic Development Framework will be defined in a separate document soon. The control mechanisms will include *benchmarks* for measuring the level of implementation of the strategy.

Apart from the above-mentioned new strategy, Croatia has prepared a number of other economic policy and strategy documents, such as the National Programme of EU Integration, the Pre-accession Economic Programme, National Development Programme, Economic and Fiscal Policy Guidelines, etc. They are all emerging from or driven by the EU accession process.

10. The Strategic Development Framework 2006-2013 was extensively presented on the Lisbon Strategy Conference on 3 May by Martina Dalić, State Secretary in the Central Office for Development Strategy and Coordination of EU Funds (CODEF).

The third Pre-accession Economic Programme (PEP) is under preparation, covering the period 2007-2009[11]. The PEP is a document prepared by each candidate country with the objective to define the economic policies and reforms necessary for European Union accession. Its aim is also to develop the institutional and analytical capacity necessary to participate in multilateral surveillance procedures of the European Monetary Union (EMU). In this context, the PEP is seen by the government as a precursor of the Convergence Programmes and of the national reports on economic reforms, which member states have to submit on an annual basis.

The current Croatian Pre-accession Economic Programme 2006-2008 showed that the Croatian economy has achieved a considerable degree of macroeconomic stability with low inflation. The PEP was the answer to the reform agenda developed within the European/Accession Partnership, focused on the most important economic issues, including macroeconomic development, public finances, structural reforms and other areas. According to it, the expected macroeconomic indicators for 2008 are the following: the GDP real growth is expected to rise by 4.3% (3.8% in 2004), GDP per capita reaching 8.342 euros, while inflation is expected to increase to 2.6% (as compared to 2.1% in 2004). The public debt is expected to decrease to 47.7% of GDP (51.3% in 2005), the budget deficit is expected to be reduced from 4.5% of GDP in 2004 to 2.9% (Government of the Republic of Croatia, 2005).

It shows that the areas in which Croatia is facing difficulties are high budget deficit and increasing public debt. At the same time, it is extremely important to translate the existing macroeconomic stability into sustainable development of the real economy sector, by particularly accentuating faster progress in structural reforms, privatisation and restructuring. The result of this should be visible in a growing standard of living for Croatian citizens. However, the progress in this area is still slow meaning that there is a need for a more efficient economic reform programme and its proper implementation.

Implementing Lisbon instruments

The practical way of approaching the Lisbon Strategy goals is through participation in its implementing and coordinating mechanisms.

In the economic sphere it means the coordination of economic policy, which in the EU is being implemented through the Integrated Guidelines for Growth and

11. The PEP 2007-09 is envisaged to be submitted to the Commission in December 2006.

Jobs (IGs)[12] as well as through the Stability and Growth Pact. The *acquis* which regulates the area of economic coordination and fiscal rules enters into force for a country like Croatia with the day of entry into the EU.

The IGs refer to the EU member states only. They include macroeconomic, microeconomic and employment guidelines. However, they are relevant for Croatia as a candidate country, remembering that some of the issues covered by IGs are also underlined (in a less demanding shape) in the Accession Partnership for Croatia. IGs are more demanding, but the priorities in the Accession Partnership could be understood as a first stage in approaching the IG targets. Furthermore, it should be stressed that Croatia is taking part in multilateral and bilateral economic dialogues with representatives of the Economic Commission and is included in the EC economic prognoses documents (covering EU member states and candidates). During the process of negotiations, Croatia has to continue with reforms and adopt, still on a non-obligatory basis, some of the basic principles covered by the EU macro- and microeconomic integrated guidelines.

Therefore it could be said that the macroeconomic guidelines are in some areas complementary to both the short- and medium-term economic priorities stated in the Accession Partnership for Croatia. More precisely, the Accession Partnership could be understood as a preparation for IG implementation. Namely, in the short term, Croatia is expected to implement prudent, stability-oriented macroeconomic policies, including the development of market-based monetary instruments to enhance the effectiveness of monetary policy; to strengthen fiscal consolidation, in particular in the area of subsidies and social spending; and to continue structural reforms.

The microeconomic guidelines are also to a certain extent in relationship with the Accession Partnership, bearing in mind that Croatia is expected to accelerate and speed up restructuring and privatisation; to further improve the business environment, further simplify and accelerate company registration procedures; introduce on-line access to selected government facilities for SMEs, further develop impact assessments, and continue the implementation of the European Charter for Small Enterprises. In the area of the internal market, Croatia is expected to make preconditions for the *acquis*-compliant market structures which are the basic step towards the preconditions for a successful entry to the internal market, while the microeconomic guidelines are more demanding.

12. The integrated guidelines for the period 2005-2008 were presented by the Commission in April 2005, and they brought together the broad economic policy guidelines (BEPG, Treaty art. 128) and employment guidelines (EG, Treaty art. 99).

Regarding employment, according to the Accession Partnership, Croatia has first to concentrate on alignment with the *acquis* in the areas of labour law, health and safety, gender equality and anti-discrimination, as well as to strengthen administrative and enforcement structures and inter-ministerial coordination, while in the medium-term it has to continue labour market and education reform with a view to increasing labour force participation and employment rates (European Council, 2006, different paragraphs).

Finally, one of the important priorities in the Accession Partnership is the need to implement public administration and judiciary reforms, to promote training and to improve human resource management in order to ensure accountability, efficiency, openness, transparency, depoliticisation and a high level of professionalism in the public service. This is one of the basic preconditions for the efficient implementation of the Lisbon Strategy goals.

The Open Method of Coordination (OMC), as a tool for implementing the European *soft law* and Lisbon Strategy in particular, is an instrument relevant for Croatia, as a means of spreading best practice and achieving greater convergence towards the main EU goals. This method involves fixing guidelines combined with specific timetables, benchmarking, sharing best practice, periodic monitoring, evaluation and peer reviews and similar practices. Various types of consultation mechanisms are present in the procedures for developing policies or enacting laws in Croatia. In the procedure for preparing new economic laws, the consultation mechanisms are directed towards economic associations and trade unions, through the Government Economic and Social Committee. Within it, consultations are held with some other partners as well, such as chambers, employers' associations, and external bodies of the Croatian Parliament.

However, some are of the opinion that social partners are not included in the consultation procedures to the extent that they should be, particularly when dealing with the social issues which are highly sensitive for citizens. The view expressed by the trade unions at the conference underlined that there was a need for establishing deeper social dialogue in the process of creating integrated policies in Croatia. Investment in economic development needs to be accompanied by relevant social instruments. Employment policy should be integrated together with education, regional development and other relevant policies. Social issues are very much underlined in the Lisbon Agenda and they cannot be underestimated when considering national economic reforms. The view expressed by the trade unions was that the economic reforms carried out in Croatia following the World Bank model do not take into consideration their social implications to the extent that is necessary. The economic reform process very often demands sacrifices from its citizens and it is necessary to give them a clear vision of what the benefits are that they will gain in return (*Pezelj*[13]).

Preparations for Croatia's participation in the OMC in the social area are under way through the elaboration of the Joint Inclusion Memorandum (JIM). Such a document is obligatory for the EU candidates, which have to prepare it before the accession with the European Commission[14]. For Croatia, the JIM is one of the activities envisaged in the area of poverty and the reduction of social exclusion within the framework of the Accession Partnership. It was finalised in October 2006 and should be followed by a concrete action plan. It focuses on key challenges related to poverty and the reduction of social exclusion and defines key measures Croatia will have to undertake within its social policy. Preparation of documents included consultation procedures with a wider team of experts through targeted seminars, workshops and conferences[15] which were also presented to the public.

Another document which is in the process of preparation is Joint Assessment Paper (JAP) on employment priorities[16]. It will present a joint analysis by Croatia and the Commission of the key challenges in labour market reform and for employment policies, focusing on the need to promote and manage structural changes in order to establish flexible and adaptable labour market.

13. Ana Milićević Pezelj represented the Union of Autonomous Trade Unions of Croatia at the conference, and gave the presentation in the form of a speech only.
14. The JIM outlines the principal challenges in relation to tackling poverty and social exclusion, presents the major policy measures taken in the light of the agreement to start translating the EU's common objectives into national policies and identifies the key policy issues for monitoring and revue. The JIM provided a basis for the new member states to prepare their first NAP/inclusion after accession.
15. The TAIEX seminar on the Joint Inclusion Memorandum was organised in Zagreb on 26 June 2006 while the conference on the occasion of finalising the JIM was held in Zagreb on October 23 with participation of the representatives of the European Commission.
16. The Joint Assessment Papers on employment priorities (JAPs) was the first step of the co-operation process on employment that the Commission/Directorate-General for Employment and Social Affairs initiated in 1999 with candidate countries. The objective was to ensure that candidate countries define employment policies that will prepare them for membership and progressively adjust institutions and policies to allow them to fully participate in the EU-wide employment policy co-ordination as from accession. It also aimed at ensuring that both the EU financial support for accession and the preparations for the implementation of the European Social Fund would focus on supporting the identified employment policy priorities.

Benchmarking

Comparative positioning, updated analysis, prioritisation of goals and comparing performance in different key areas and factors that determine economic success *(benchmarking)*, as well as exchange of information on best practice have crucial importance for strengthening competitiveness. In Croatia the activities of collecting and monitoring information for the purpose of benchmarking are being developed within the activities of the National Bureau of Statistics, as well as within the activities of other relevant bodies, such as the National Competitiveness Council (NCC).

The "National Report on Competitiveness" and the "Competitiveness Barometer" are examples showing that Croatia has introduced the system of benchmarks for some areas which gives the possibility of evaluating its position compared to other countries. Croatia has been presented comparatively in the "Global Competitiveness Report" since 2003. The NCC regularly reports on the comparative position of Croatia as regards other more developed world economies and gives recommendations and measures to improve the country's position. The "Global Competitiveness Report 2006-2007" presented by the NCC[17] indicates that Croatia has significantly improved its position on the global competitiveness scale, and has been shifted from 64th position to 51st, among 125 countries. This shows that it has come closer to advanced transitional countries (Slovakia is ranked 37, Hungary 41, Poland 48), is ranked better than acceding countries (Bulgaria 72, Romania 68) and far beyond the SAP countries (which are positioned around 80). In the context of the Lisbon Strategy implementation, it is important to stress that Croatia has been performing best in three areas - higher education, innovation and technological readiness (which are the key Lisbon Agenda priorities), while it is positioned below average in the areas of macro-economy, market efficiency, health, primary education and institutions. These areas represent the key challenges for the next period.

This is the first year that Croatia has been included in the rankings of the IMD "World Competitiveness Yearbook"[18]. According to the IMD report, the main competitiveness challenges facing Croatia in 2006 are: the new government role

17. The National Competitiveness Council, as a partner of the World Economic Forum, presents the "Global Competitiveness Report" on a yearly basis, including indicators for Croatia. The last one (2006-2007) was presented in Zagreb on 27 September 2006.
18. This year the report encompassed 61 countries, and Croatia was ranked in 59th place. Croatia is in a group of countries Bulgaria (47th place) and Romania (57th place) that are candidates for membership of the European Union, and behind the EU member countries.

(reform of the judiciary and public administration, reduction of public expenditure, deficit and taxes); strengthening innovation and technological development; improving cooperation between R&D institutions and business; increasing (public and private) investment in R&D and education; accelerating the process of privatisation; and the restructuring of state and local public enterprises. They correspond quite well with the Lisbon goals, but also with priorities underlined in the government's strategic development document.

Furthermore, Croatia is comparatively positioned through *benchmarks* in a number of recent comparative international studies, such as the "Global Entrepreneurship Monitor" (GEM, 2006). It shows that Croatia's position has risen from 32nd place in 2002 to 19th place in 2005 when measuring several composite indicators of entrepreneurship development and competitiveness of the enterprise sector.

Another example is the area of education and training. The Commission report on progress towards the Lisbon objectives in education and training (European Commission, 2006b) gives comparative indicators for 30 European countries (EU 15, the acceding countries, candidate countries, and EEA countries). Croatia is not comparatively positioned according to all indicators (due to insufficient statistics) but is presented in most of the areas. In higher education, one of the European benchmarks is that 85% of 22 year-olds in the EU should have completed upper secondary education by 2010. A high level of general educational attainment among the working population is a prerequisite for a dynamic and competitive economy. In this respect, Croatia is highly positioned as compared to EU member states. Many of the new member states already perform above the EU benchmark set for 2010, while three of them (Czech Republic, Slovakia and Slovenia) have shares over 90%. According to the EU report, this is the case of Croatia as well, although the position is not so good according to national statistics. In any case, this confirms that significant improvement has been achieved, although it opens up the question of the compatibility of the statistical methodology applied.

Achievements and challenges

Croatia is making progress in different areas covered by the revised Lisbon Strategy, but is still facing many challenges to catch up with the new EU member states. Some practical examples that are mentioned in the continuation of the paper might give an indication of the positioning of Croatia in approaching the Lisbon goals (Boromisa and Samardžija, 2006).

In accepting the *acquis communautaire*, Croatia will share the goals envisaged in the Lisbon Strategy in numerous communications and action plans. One of the areas is raising the level of R&D expenditure in the GDP of the country. The European benchmark is 3% of GDP expenditure on R&D, with two thirds coming from the private sector. With a level of 1.14% gross expenditure on R&D (GERD), Croatia is far below the EU average (1.9%) but not significantly lagging behind the new member states, and is well above the average of SEE countries. However, instead of two thirds of the expenditure coming from the private sector, Croatia has the opposite proportion. The action plan aiming to increase expenditure in the R&D sector is under preparation and it will set goals complementary to the EU Lisbon goals, but based on Croatian possibilities and needs. The goals should be defined based on realistic estimations of Croatian potentials and should include all the necessary fiscal and other measures that are likely to be needed to achieve them, together with mechanisms for monitoring the implementation.

Croatia has established a national innovation system through fostering cooperation between science and industry, as well as introducing a wider national scientific and technological policy. A number of innovation initiatives are under way. In this context, the first innovation policy programme entitled "The Croatian Programme for Innovative Technological Development (HITRA)" should be mentioned, aimed at building up an efficient national innovation system through fostering cooperation between science and industry; revitalising industrial R&D; and encouraging commercialisation of research results[19]. However, statistics on innovation hardly exist in Croatia; the country is lacking benchmarks in innovation capacities to be positioned comparatively with EU countries nor are these included in the innovation databases[20].

The Croatian Institute for Technology has recently been established aiming to strengthen the "*knowledge triangle*" - education, research and innovation - with the intention of becoming the leading institution in Croatia for creating and developing technological policy as a precondition for the growth of the knowledge-based society. Its activities are closely linked to the Lisbon Agenda goals and harmonised with the future role of the European Institute for Technology.

The concept "one-stop-shop" has been introduced already in 2004 as a part of the programme HITRO.HR, while the EU set it as a goal to be achieved by 2007.

19. HITRA was initiated by the Ministry of Science, Education and Sports and accepted by the Government of Croatia in April 2001.
20. An example of such EU databases is the European Innovation Scoreboard.

It simplified the administrative procedures for starting a business in Croatia. Instead of the several weeks that were previously needed to set up a business, it is possible to do this now in one week. HITRO.HR has been developed as a government service of wider scope, intended to enable citizens and entrepreneurs to get quicker, simpler access to information and services in one location.

The *better regulation* process recently started aims to introduce regulatory impact assessments (RIA) into legislative procedures. The intention is to get a clear insight into the expected costs and overall impacts of new legal acts, particularly those that are being harmonised with the *acquis*. This is an initial step in a long-term process which will lead to better regulation but needs strengthened overall efforts to give results. The reform project HITROREZ (regulatory guillotine) was launched in 2006 with the aim of analysing and simplifying existing legislation, as well as to reducing administrative barriers in the business sector. Its final goal is to improve the quality of the existing legal framework by reducing and simplifying it.

Croatia is implementing the principles of the EU Charter for Small Enterprises and, according to the EU report (European Commission, 2006e), has made the most significant progress in the region in achieving the charter's objectives. It was ranked in the highest position among eight countries in the following areas: education and training for entrepreneurship, cheaper and faster start-up, availability of skills, taxation and financial matters, successful e-business models and top-class small business support (European Commission, 2006e).

There is a need to further develop the system of collecting and monitoring qualitative and quantitative indicators in Croatia in different areas. This system should be linked in the future to the EU system of indicators (Eurostat) and will enable Croatia to be compared on an equal basis with the EU member states and other candidates.

Although the above-mentioned examples are chosen from different areas, they show that there is some progress towards implementing the Lisbon goals, but the approach and coverage is still not coherent enough. Therefore implementation of the Lisbon Strategy remains the challenge for Croatia in the accession period.

CONCLUSIONS

The first phase of implementation of the Lisbon Strategy has not been a success due to the lack of political leadership, commitment and ownership on the part of member states, but also due to bad governance and lack of prioritisation. It was initially intended to improve Europe's economy and boost employment through achieving certain objectives, such as creating an internal market for services, decreasing administrative burdens, improving human capital, reaching the target of raising the level of expenditure on research, development and innovation, raising the level of the overall employment rate, etc. Even in the areas where Europe has been better performing there is a need for reforms, including the European social model. The reforms following the mid-term review are expected to lead to improved delivery and better results thanks to the more focused objectives, clearer planning and stronger ownership of the process in member states.

The experiences and achievements in implementation of the strategy in some of the new EU member states show that the situation differs from country to country. Their good practice is particularly useful for Croatia.

There are several lessons that could be learnt from Slovenia's case. It is important to focus on proper priorities, in spite of pressure from special interests and political risks, as well as to involve and ensure full participation of interested stakeholders. Furthermore, there is the need to establish the best possible communication with citizens and to achieve the best use of the EU, through improving the administrative and absorption capacity for EU funds. The Czech Republic experience underlines the problem of solving the discrepancy between the enormous public tasks of high employment, capacity building in health and social services, alleviation of poverty, and strengthening social cohesion in the new member states, and their insufficient social, economic and administrative implementation capacities. The EU incentives regarding institution building and transfer of skills were helpful, but national initiatives of the new member states could be seen as an added value to this EU-centred effort. The case of Hungary shows that new member states face the problem of overlapping (and sometimes even conflicting) reform programmes. This relates to the NRPs and some other documents that were prepared previously, because they cover a lot of aspects that were already present in other programmes or plans and have overlapping time frames.

Although not obligatory, the Lisbon Strategy objectives are relevant for Croatia in the pre-accession stage. The strategy does not introduce additional

EU membership criteria but its objectives will be reflected in the EU's policies towards the whole South-East European region in the areas that could be considered priorities for the countries' overall reforms.

Being a candidate country, Croatia does not share the same responsibilities regarding the Lisbon Strategy objectives as the EU member states. However, by entering into negotiations on EU membership, Croatia committed itself to accepting the *acquis* and to harmonising policies with EU programmes and strategic documents. The country is therefore facing the challenge of approaching the Lisbon goals together with the basic obligation to fulfil the Copenhagen criteria, although both challenges are not an obligation at this stage. The screening process highlighted some of the areas in which Croatia should start with preparations to implement Lisbon Strategy goals. Primarily these "soft" obligations start with the need to horizontally adopt the Lisbon instruments, in order to be able to implement policy measures practically. The integrated guidelines are also relevant for Croatia as a candidate country, remembering that some of the issues covered by IGs are also underlined (in a less demanding shape) in the Accession Partnership for Croatia. IGs are more demanding, but the priorities of the Accession Partnership could be understood as a first stage in approaching the IG targets.

Croatia needs to prioritise the Lisbon goals, bearing in mind the specific situation in the country. Its starting position in different areas covered by the strategy, and it must realistically assess its own possibilities of implementation. Some progress has been made in achieving the Lisbon goals, but this has lacked a coherent approach and is insufficient in coverage. It is necessary to raise awareness that approaching the Lisbon Strategy goals is crucial not only for being able to successfully undertake the obligations of a future member state, but also for achieving the Copenhagen criteria and overall implementation of reforms. It is also necessary to raise awareness and the level of understanding of the Lisbon Agenda implementation mechanisms and their relevance for the process of approaching the EU. The strategy will remain the principal reform framework for the EU during the period of Croatia's accession, meaning that it will lead to raising overall EU standards and thus will make Croatia's adjustment to EU requirements even more demanding than was the case with previous candidates.

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THE LISBON STRATEGY: A FRAMEWORK FOR SOCIAL REFORM AGENDA IN THE EU

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SUMMARY

The Lisbon Strategy so far has not been a success due to the lack of political leadership and ownership of the whole process. The reforms following the mid-term review in 2005 introduced three-year planning, watered-down objectives and instruments, and clearer cut orientation with the national reform programmes. These new elements hopefully will enable the strategy to produce better results. The Lisbon Strategy has often been reduced to "competitiveness" without understanding that deregulation, privatisation and other reforms can serve as a successful engine for growth only if the macroeconomic, social and employment conditions are not neglected. Macroeconomic reform is an essential component of any European-wide efforts towards sustainable growth and full employment. However, structural reforms will only result in more jobs and growth if improvements on the supply side of the economy are being matched with similar developments on the side of the aggregate demand.

THE LISBON STRATEGY - CHALLENGES AND EXPECTATIONS

The objectives of the Lisbon Strategy uphold the European social model reflecting 60 years of common values in making social development one of the pillars of sustainable development. The European social systems contain the common values of equality and solidarity as well as distribution-equity as fundamentals. Thus the difference between the European model and the US model is, as the American academic and bestseller author Jeremy Rifkin puts it in his book *The European Dream* (2004): "*Public goods and universal, free and cheap access for all citizens is crucial for a successful modern economy and a fair society. The objective is combining economic performance and competi-*

tiveness with social justice despite the differences in the level and quality of protection and implementing instruments".

Six years have passed since the Lisbon European Council of March 2000 set out its strategic goals for Europe: *"to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*. Sustainable growth remains at the heart of the Lisbon Strategy. Its essence is the interdependence of economic, social and environmental progress. Europe's competitiveness in the 21st century and the nature of European society itself depend upon how Europe responds to the three central challenges of the modern global economy:

- Globalisation itself, with the pressure of growing competition from both industrialised and some developing nations.
- Constant, and accelerating, change - not only in technologies, but in markets, in social conditions and in business models.
- Economic and political instability.

Europe's choice is to combine a competitive strategy of excellence, of high quality of infrastructure, jobs, public service, welfare system, workforce, labour markets, companies and environment.

The Lisbon Agenda is opting for a strategy of innovation and high productivity/good quality jobs, and not for cutting wages and competing in deteriorating working conditions in order to make Europe the most competitive region in the world.

The 2005 mid-term review has led to the rebirth of the Lisbon Agenda with its economic goal priorities of "growth and jobs" and a new system of governance with a special European programme, and also through National Reform Programmes drawn up by the member states on the basis of 24 EU guidelines about macro- and microeconomic policies and employment. Ownership and responsibility are to be strengthened within those member states that have been responsible for the poor implementation of the Lisbon Agenda from 2000 to 2005. The Lisbon Agenda contains a catalogue of goals for member states.

Boosting growth and jobs in Europe

The 2005 reform of the Stability and Growth Pact gave back more budget flexibility to governments in order to promote public investments. The clearly needed growth and investment which boosts productivity is missing. As 90% of

EU trade takes place in the European home market, this economic interdependence has to be leveraged for the purpose of stronger economic growth and job creation. The economic integration needs coordinated national policy measures and also use of all European tools such as the Lisbon Strategy, broad economic and employment guidelines and the Stability and Growth Pact. But effective economic policy coordination has not yet been achieved despite the fact that everybody knows about positive spill-over effects because of economic integration and interdependence.

The Lisbon Strategy was launched to reinvigorate Europe's economy and to boost employment by especially addressing the following important Lisbon goals: the creation of an internal market for services, the reduction of administrative burdens, goals on improving human capital, the target of 3% of GDP on research and development expenditures, and the 70% target on the employment rate in order to achieve an 11% increase in employment and a GDP growth by 12% to 23%.

The credibility of European integration is at stake with 19 million unemployed and 70 million poor people. European integration was for decades not only a success story for the establishment and maintenance of peace but also for economic growth and an increase in living standards but this has to gain momentum as far as investment-led, employment-intensive growth is concerned. To meet the target of a 70% employment rate, an average annual growth rate of 1.5% is needed until 2010 compared to only 0.7% per year growth achieved in 2000-2003. Demand and supply measures have to be integrated into an appropriate policy-mix so that internal demand is becoming more dynamic, thus leading to higher investment and consumption.

The European Union's drive for economic modernisation cannot deny the interdependence of economic, social and environmental progress and the fact that Europe has no future trying to compete as a low-cost producer in a globalised world. The source of the Union's competitive edge in the 21st century will be excellence, a knowledge-based economy with the participation of all, universal access to public goods and services, good universities and research centres, efficient public administration, social peace, a high quality of life, a highly skilled work force, investment in human resources, life-long learning, and dynamic labour markets and companies. A strong social policy is also needed, but social policies have not only to be looked upon as an expense factor but also to become a productive factor in economic performance. Social policies actually not only help to reduce social exclusion but also contribute to a better economic performance by increasing the capacity of the economy to adapt through investment especially in human resources for economic, social and industrial change. Social policies, aside from their redistributive functions, allow an efficient combination of flexibility and security in the workplace and in the labour market. Even social protection does not undermine competitiveness as has been demonstrated by the Nordic countries and the Netherlands holding top positions in the World Economic Forum's competitiveness ranking.

The relaunch of the Lisbon Strategy and the mid-term review

The evaluation of the Lisbon Strategy is disappointing: the glass is half empty not half full as foreseen by the mid-term review of the Lisbon Strategy. The Lisbon Strategy so far has not been a success. The lack of political leadership and ownership of the whole process is to be blamed. Hopefully the reforms following the mid-term review in 2005 will bring about better results because of the three-year planning, because of the watered-down objectives and instruments, because of the clearer cut orientation of the national reform programmes on the basis of the 24 guidelines, and the European policies for streamlining, concentration and financing. Success will not only depend on the ownership question but also on political leadership and economic governance. Success depends on how the structural reforms are accompanied by progressive macroeconomic policies and not just stability-oriented policy-making approaches. Despite the fact that Europe represents 20% of world trade, 30% of global GDP and 45% of foreign direct investment (FDI), it does not mobilise enough resources to create prosperity in Europe. An appropriate macroeconomic investment-led employment-creating policy mix is needed for Europe's recovery.

Growth rates currently remain too low and do not correspond to the agreed annual GDP growth rate of 3%. Employment rates are stagnating and unemployment and poverty are still unacceptably high. The average quality of jobs has not been improved and social inequality in Europe has increased not only within the enlarged EU because of enlargement but also within the member states. Europe has undergone deep structural reforms and put its weight on a reduced definition of competitiveness instead of complementing structural reforms by coordinated macroeconomic policies bringing an added value. Growth, which is needed in order to foster employment and social inclusion, cannot be generated by exports to third countries or by reforms solely. Since the degree of exports to third countries is relatively low, especially in Europe's big economies like Germany, there is a need for a higher degree of internal demand in order to generate growth. Because of a lack of confidence and the feeling of insecurity, private investment and consumer demand have been too low, real wages decreased, particularly in Germany, and unemployment has not diminished.

Reforms have to be accompanied by investment and internal demand. Figures show that despite reforms in the last years, productivity was half of productivity rates in 1990-1996. Europe is also lagging behind the US (Table 1).

Table 1: Comparison of the EU and the US (GDP growth, unemployment and inflation; 1994-2003)

	EU	**US**
GDP growth	2.1%	3.2%
Unemployment	9.6%	5.1%
Inflation	2.2%	1.9%

Source: Eurostat

So Europe has homework to do as far as growth is concerned in order to safeguard and create more and better jobs and to secure the social dimension of European integration. Economic growth depends on available inputs such as investment in human resources, capital investment, as well as growth in productivity. Because of ageing societies, economic growth will more and more depend on higher productivity and thus also on higher employment rates.

There is, of course, still a long list of reforms Europe has to tackle, from the completion of the single market to ICTs penetrating every part of our economies. Structural reforms are keys to improving productivity in order to stimulate economic growth and prosperity. But, despite reforms, Europe has not achieved productivity gains. Europe had a productivity growth of 2.6% from 1990 to 1995. This figure went down to 1.3% in the period from 1996-2006 according to Deutsche Bank research. This is difficult to explain. It is clear that macroeconomic policy support for structural reforms has been too weak. The time for just calling for structural reforms is over. Very rightly the Council Conclusions 2005 insist on appropriate macroeconomic policies and improving business and consumer confidence in order to "durably bring growth up to its potential level".

Europe has financial room and labour resources for more investment and growth-oriented macroeconomic policies but was not able to design a more investment-oriented macroeconomic policy. The “stupid” Stability and Growth Pact, as referred to by Mr Prodi in one of his speeches, is now reformed; the lack of confidence due to unforeseen sluggish growth, and economic and employment insecurity were seen as the heart of the problem.

Europe's macroeconomic policy regime is responsible for its actual performance. Positive structural reforms are needed but they will only result in more jobs and growth if improvements on the supply side of the economy are being matched with similar developments on the side of aggregate demand.

The big and buoyant single market is the indispensable basis for the business confidence that generates investment, growth and jobs. It is also a powerful advantage in international competition, envied by some of the EU's biggest trading competitors, such as the US, Japan, China and India. In current circumstances, with the strong euro, the role of domestic demand is becoming even more crucial. There is a need to stimulate this demand by boosting investment. This relies on strong consumption, which depends in turn on the defence of the purchasing power of employees.

Lisbon renewed

The Lisbon Strategy has been renewed. Rightly the mid-term review has demonstrated that the strategy had the right complex objectives. Results however were missing especially because of the low degree of implementation by member states and the lack of ownership and leadership needed. The Lisbon Agenda on sustainable growth, full employment and social inclusion wanted to increase the competitiveness of Europe. Competitiveness is a key to creating and securing jobs and to sustaining the European social model. As the strategy has not improved European economic performance and the EU has fallen even further in global competitiveness, it is necessary to unlock European potential and change the manner in which Europe is pursuing the Lisbon Strategy, to become more efficient, more coherent, more concentrated and more decentralised. In the last decade, the EU economy has grown well below its potential, with the result that millions of potential jobs have failed to be created. Both public and private investments have been inadequate to generate growth. From 4% of GDP in the early 1970s, gross public investment has fallen to 2.4% in the euro area, while private investment has also fallen. New challenges, such as the ageing of the population, the growing pressures on the natural environment and the growing competition from Japan, China, India and others, means that Europe faces more intense pressure than ever before and that it needs to raise its game. Investment in physical and human capital is the essential transition mechanism from a stabilisation policy to long-term economic growth. Macro-economic reform is therefore an essential component of any Europe-wide efforts towards sustainable growth and full employment.

The assessment rightly calls for increasing the EU's ability to create jobs, raising the capacity to grow through more investment in human resources especially, and ensuring that Europe is and remains an attractive location for employment and investment. The Lisbon Agenda never concentrated unilaterally on the economic goals of European integration but always followed a combined strategy orientated towards sustainable growth, quality jobs and social cohesion. Europe was seen as the answer to the challenges of globalisation not as a part of the problem, and it could thus tame the "globalisers" in the markets. In Europe there should be competition between firms and not between states. Active public policies are needed in order to procure public goods and services but also to generate public revenues in order to invest in intelligent policies, modern social protection and social services.

The closest possible partnership between the member states and the Community is needed. Commonly adopted objectives and measures like the 24 guidelines for growth and jobs have to be followed by the EU but also by the member states in their own national reform programmes and in cohesion policies and other common policies. The evaluation of the first implementation in autumn 2006 will judge the capacity of the EU and the member states to achieve substantial progress and to do better also from a democratic perspective because parliaments and civil society will participate in the exercise.

The renewed Strategy for Growth and Jobs calls for enhanced ownership, greater coherence, and a stronger focus on growth and employment:

- Enhanced ownership: since the policies addressed by the Strategy for Growth and Jobs cut across many areas, it is important to have a clear definition of the responsibilities. The member states pursue reforms at the national level and present them in their National Reform Programmes. Measures taken at Community level, on the other hand, belong to the Community Lisbon Programme.
- Greater coherence: the revised Strategy for Growth and Jobs rests on an integrated set of guidelines which cover macroeconomic, microeconomic and employment policies. These guidelines were adopted by the Council for

a three-year period last summer. They are the basis on which the member states prepare their National Reform Programmes. Actions and policies are still too vague and broad, but reporting and the range of actions have been rightly reduced.

- A better focus on growth and jobs: the new guidelines and the large majority of the National Reform Programmes reflect a strong focus on selected key actions to promote growth and jobs.
- Three dimensions of NRPs: the National Reform Programmes consist of three parts covering macroeconomic, microeconomic and employment policies. Macroeconomic issues mainly concern public finances, price developments, overall unemployment, and for the countries of the euro area and countries wanting to join, the respective stability and convergence indicators. Naturally, employment policies deal with all issues related to the labour market, including wage formation, pensions and related social issues. Microeconomic policies deal with the structural reforms necessary to enhance the overall growth potential and competitiveness of the economy in the medium and long term.
- Implementation: member states have already started putting into practice their programmes. In autumn 2006, they will issue national reports on progress made with implementation. The Commission will then assess the overall situation in its Annual Progress Report in preparation for the spring summit in 2007.
- Key areas for action: the Commission itself identified four key areas for action which would deserve priority this year and the following one: knowledge and innovation; unlocking business potential, including promoting SMEs; response to globalisation and ageing; and common EU energy policy and efficient energy market.

These priority action areas will contribute to a successful implementation process. The spring summit 2006 has emphasised the need for more efforts. Only two objectives may certainly be achieved by 2010: a higher employment rate also for women (as foreseen) and an investment into research and development by 2.6% to 2.7% of GDP (3% foreseen, 1% public investment and 2% private investment).

LISBON STRATEGY AND KEY POLICIES

Monetary policy is not neutral for growth potential

Monetary policies actually are missing out on an important opportunity. Despite the fact that the current oil crisis is not showing the negative side-effects of the crisis in the 1970s, interest rates have been raised and will be raised further. The possibility of boosting activity and jobs without endangering inflation prospects is being neglected. It is worrying that the output gap is not a component of the European Central Bank's (ECB) concept of monetary policy because the mandate of the ECB clearly demands the support of economic policies in the Union (Treaty art. 105). At the same time it is up to the member states to pursue an annual improvement in their cyclically adjusted budget deficits and ensure higher adjustment efforts in an economically prosperous time. As growth in the euro area is picking up to its potential some member states are in danger of repeating the mistakes of the 1990s and not making sufficient use of "good" times to reduce deficits and consolidate further. Also, wage increases should be consistent with the trend in productivity over the medium term which will stimulate internal demand as an engine of growth.

Lisbon and social policies

For Europeans, the battle to achieve greater productivity is inseparable from the battle to ensure fairer distribution of the fruits of growth, greater social cohesion and effective protection of the natural environment. It is no coincidence that the Nordic countries provide the highest level of social protection and environmental protection. The high public spending this involves has not prevented their economies from continuing to improve their world ranking in terms of performance and innovation. Europe and also the EU social model(s) need reforms as policies are not only an expense factor but also a means to stimulate productivity and internal demand. Therefore the social agenda is important for the further implementation of the Lisbon Strategy. Europe must not give up its ambitious social policies, but should make full use of their potential contribution to economic performance and quality of life. Europe must enhance efficiency of social policies, eliminate poverty traps and other disincentives to work, must invest in developing (education, vocational training), sustaining (health) and activating human resources (through active labour market policies) and must ensure that the modalities of the financing of social policies contribute to employment and growth while maintaining the principle of mutual support and intergenerational solidarity. The Lisbon Strategy addressed the need for comprehensive and integrated social and market reforms in order to create a “Europe of excellence”. The social dimension of Europe is seen as fundamental to citizen's support for the European Union project. In order to avoid social dumping within the European Union clear rules with clear standards have to be applied, for example also to the services' sector and the posting of workers. The revised Directive on Services and decent levels for minimum wages could help.

Lisbon and employment

In a world of ever more mobile capital, the most durable source of competitive advantage is the labour force. Europe's most precious competitive asset is therefore a workforce which is well educated and trained, and has the autonomy and motivation to respond to constant change. This, and the need to overcome the barriers which keep so many Europeans out of the workforce, should be the guiding principles of European workplace and labour market policies.

It is not by accident that the Scandinavian countries, which have most aggressively pursued the Lisbon Strategy of social excellence, are now also among the EU's highest economic achievers. They have sought to provide the kind of *real* job security that rests on human abilities being kept up-to-date so that they can remain and progress in the labour market. Scandinavian governments have invested heavily in active labour market and social policies and the skills needed for the knowledge economy, including the transfer of skills to older and female workers who might otherwise be excluded from the labour market. That way, labour markets can evolve, as long as there is healthy social dialogue, systems for vocational training and job matching and a social security system that does not leave anybody behind.

There is rare unanimity among economic and political actors and analysts that raising Europe's employment rate is one of the most urgent tasks of the Lisbon Strategy. To compensate for a declining workforce and ageing population, Europe needs to draw on all the resources Europe has. This means, above all, addressing the issue of economic inactivity, particularly among elderly workers, the unskilled, immigrants and ethnic minorities - so policies against social exclusion turn out not to be a hindrance, but a vital element in meeting a core Lisbon objective.

The strong link between the employment rate, the social inclusion objective and the sustainability of the European model is one of the elements of the Lisbon objectives that will help to achieve a 70% employment rate for the year 2015, including an employment rate of 60% for women and 50% for elderly workers.

Modern competitive conditions require a revision of the concept of flexibility. In a fast-moving global economy the most successful companies will be the most agile. To create a faster-moving European economy - and a new confidence among Europe's workforce that change is not a threat but an opportunity - requires a modern work organisation and active labour market policies. “Flexicurity”, the Nordic model is a good answer to the challenges. Flexicurity describes the particular Danish mix of flexibility and social security.

The model of flexicurity gives the employer the right to hire and fire according to need so that dismissal protection is very low. On the other hand the dismissed employee gets 80% of their former salary as unemployment benefit and has the right and obligation to take part in training. With this model agreed by the government and the social partners the Danish unemployment rate dropped from 10.2% (1993) to 4% in 2002.

This is a policy strategy attempting to enhance the flexibility of labour markets, work organisation and labour relations as well as security - employment security and social security - notably for weaker groups in and outside the labour market. Europe is here at the start of a new departure, given the challenges of globalisation and market developments. The objective is to move from job security to employment security.

The role of social protection will be crucial. That is why the 2006 Brussels European Council insisted rightly that a high level of social protection was central to the Lisbon Strategy and called for the reinforcement of policies to combat poverty and social exclusion. This link must be dealt with more in the National Reform Programmes of member states.

A workforce for the knowledge economy needs to put education and training at the heart of the Lisbon Strategy. Public investment in the knowledge society remains insufficient. Options such as better use of EU structural funds and education and training funds should be examined. There is also a big gap in private funding compared to the private sector in the US which invests five times as much in human resources as in the EU. Education is an essential ingredient in sustainable growth. Raising average educational attainment by one year represents a 5% increase in productivity and growth in the short term and a further 2.5% in the long term. Higher levels of education and training mean better life chances, social inclusion, a better job and active citizenship. A sound basic education must go hand-in-hand with lifelong learning, accessible to all. Surely a “Europe of excellence” is needed but a knowledge-based society must invest in education for all.

Modern economies are characterised by sophisticated technologies, by more mobile - and often more short-lived - companies, and by rapid change in the knowledge and skills needed. That is why training and qualifications need to shift towards the concept of lifelong learning. Member states are not investing enough in this important component of competitiveness.

Gender equality is crucial

Gender equality is central to economic growth. The Nordic countries demonstrate that investment in social infrastructure goes hand in hand with raised competitiveness. It is preposterous to waste the talents and experience of half of the population. So the integration of women into the labour market is crucial. Europe needs an increased level of employment among both women and men. Therefore, very rightly, the Lisbon Strategy points to the need to provide for available, affordable, good quality childcare and care of the elderly. The now agreed Gender Pact of the EU symbolises a new understanding of this perspective which needs more commitment by member states in order to improve the reconciliation of professional and family life, to encourage female entrepreneurship and to overcome gender segregation in the labour market and professional training.

Public goods are needed

Public goods and services are a key element of the European social model. The EU Treaty as well as the EU draft constitution pay respect to that engagement. Services of general interest (SGIs) and services of general economic interest (SGEIs) are fundamental to the universal delivery of public goods such as health, education, culture, public transport, water, energy supplies, childcare and eldercare to all citizens. It is essential that in reforming the European social systems SGIs and SGEIs are respected given their key role not only in delivering a better quality of life to citizens, but also in enhancing businesses' capacity for efficiency and their access to a healthy and well-educated adaptable labour force. A European framework directive is needed.

Taxation and Lisbon

Taxation should serve to generate finances for public goods, services and social security and contribute to a fair distribution of wealth and income. Unfair tax competition is a threat to the cohesion of the EU. Public finances are reduced because of tax erosion and avoidance, and the tax burden is shifted to the least mobile factor of production - labour - which is bad for employment, a central

Lisbon objective. In the "race to the bottom" model of competitiveness tax competition is good. But in the Lisbon model, which depends on excellence, on a highly educated and skilled workforce, on high quality public services, on world class universities - in this model, healthy public finances are an essential element, and the erosion of the tax base is a threat which must be tackled. That is one reason why the single market needs a coordinated approach to corporate taxation and a progressive coordination of corporate tax bases, leading eventually to an approximation of European corporate tax rates - possibly following the model of VAT and excise duties' coordination, introducing minimum tax rates.

Relating funds to the renewed Lisbon Strategy is necessary, but there has to be a balance between political objectives and structural funds spending. Fair taxation policies in the EU are also necessary to finance public goods and services and social security. "Beggar-thy-neighbour" policies in the field of taxation have no place in the single market.

Social dialogue and modern decision-making

Social dialogue is an essential element in the traditions of the member states and the European Union. Any successful reform of the social systems needs involvement of all stakeholders, in particular the social partners and civil society. The development of a greater role for the trilogue at European level is necessary. Those policies should be echoed by active EU policies concerning corporate governance.

EUROPEAN ECONOMIC GOVERNANCE

Europe has an economy and a social and environmental model which is among the best and stands comparison with any in the world. But Europe needs to do better. Europe still lags behind not only in economic growth, but also in employment levels and some key indicators of economic dynamism, such as rates of innovation cohesion.

The Economic and Monetary Union (EMU), completed in 1999, displays a novel and *sui generis* economic policy framework, but the proper functioning of EMU still requires a well-developed economic coordination framework in Europe. Since 1993, the Council has annually adopted Broad Economic Policy Guidelines (BEPGs), on the basis of a Commission recommendation. The BEPGs are at the heart of the economic coordination process. The BEPGs are politically but not legally binding; no sanction mechanisms are foreseen.

Compliance is voluntary and based on peer pressure. The BEPGs must be given the same legislative status as the employment guidelines with formal participation in the decision-making of the Parliament and the Commission in order to reach a common position on macroeconomic decision-making at least between these three EU institutions.

It must be stressed at the outset that in the EU and EMU "economic policy coordination" encompasses an entire spectrum of interactions among policy actors, including monetary and fiscal actors. The range of methods used includes directives, community programmes, information exchange, discussion of best practices, policy dialogue, peer review as well as commonly agreed policy rules and objectives and jointly determined actions. Nevertheless the mix of policy instruments is different in each policy field: the single market policy is more based on directives, the research policy on a Community programme, and the social protection policy on the Open Method of Coordination (OMC). Priority should now go to improving the consistency and synergy of the instrument mix in each policy field.

The OMC has been introduced in 11 policy fields. It is also important to improve the coordination of the policies included in the Lisbon Strategy at both European and national levels. Nevertheless, with the exception of binding rules on deficits, macroeconomic coordination within the euro area is still generally based on dialogue and consensus. Coordination is needed to take account of economic interdependence and direct cross-border spill-over of national policies onto neighbouring countries and onto the worldwide economy.

Economic coordination and governance is needed more than ever in order to stimulate positive spill-over effects from state to state, from region to region. There are instruments for economic governance like the Stability and Growth Pact, the BEPGs and the Employment Guidelines (EGs). Since 1994 the Maastricht Treaty offers good conditions for economic governance. But the only institutional innovation is the macroeconomic dialogue on the political and technical level (Cologne Summit 1996) which has been from the start a failed opportunity because the monetary policy is the only supranationalised EU policy that does not participate in an *ex-ante*-coordination. The ECB rejected any progress of governance in order to defend its independence.

Too often the Lisbon Strategy has been reduced to "competitiveness" without understanding that deregulation, privatisation and other reforms can only be a successful engine for growth if the macroeconomic, social and employment conditions for dynamic growth are not neglected. Pure supply-side measures of a modernisation strategy are not helpful. A sound and balanced appropriate policy mix is needed taking into account supply- and demand-orientations.

The so-called “Europe of excellence” calls for social and ecological sustainable growth, qualitative growth and coordination of policies in order to guarantee better jobs and quality of life, but it also needs structural reforms to be accompanied by quick and smart growth-oriented measures.

The new cycle of economic governance is based on a three-year cycle starting in 2005 and has to be renewed in 2008. The intergovernmental policies combine the former BEPGs and the Employment Guidelines (EGs) and include the following policy areas:

- Macroeconomic priorities, describing the policy responses to the macroeconomic challenges which have been identified by member states. This part will cover the issues that are discussed in more detail in the stability and convergence programmes which will be submitted in the autumn in parallel with the national progress reports as a separate document.
- Microeconomic priorities describing the policy responses to the microeconomic challenges which have been identified by member states. This part replaces the earlier Cardiff reports.
- Employment priorities describing the policy response under the employment challenges which have been identified by member states. This part replaces the existing national employment action plan.

Based on these guidelines, which should encompass the economic, social and environmental dimensions, member states will draw up their National Reform Programmes (NRPs), which should be conceived as forward-looking political documents setting out their three-year strategy to deliver growth and jobs. These programmes will also allow the Commission to assess the policies and progress identified by member states. On the basis of the assessment of the NRPs, the Commission will in January adopt its Annual Progress Report and may propose updates to the integrated guidelines and possibly country-specific recommendations as the basis for the continuation of the cycle.

In this context the procedural changes introduced by the Commission to economic and employment policy coordination, by making it mid-term oriented and mutually supportive are helpful but should be further enhanced by more concrete country and sector-specific recommendations and by aggregating fiscal policies and supply policies.

Consideration should also be given to the problem of transparency and broader participation in the decision-making process for economic coordination and employment policy (policy mix) at national and European level. It is necessary that through more systematic involvement of national parliaments and social partners the parliaments and civil society fully participate in the further development of the integrated guidelines package and national progress reports.

CONCLUSIONS

This paper leads to the following main conclusions:

(i) The Lisbon Process should aim to reach its ambitious objectives in the economic, social and sustainability dimensions through a strategy of innovation and by investing in a knowledge society.

(ii) All attempts to narrow the Lisbon Agenda to the sole pillar of competitiveness and to forget about the social and environmental dimension should be rejected. European integration is based on the social market economy, competition and solidarity, economic and social cohesion. European integration is not about competition between member states. The Lisbon Strategy is not a pure market strategy.

(iii) The Lisbon Strategy needs further progress in the European internal market. Better regulation is needed with social minimum standards. The latest example is the Directive on Services. A single market cannot be realised without strict conditions.

(iv) A growth-friendly investment-led and employment intensive macroeconomic policy regime is needed. Efforts have to be organised. To repeat an old idea from the 1990s: 1% of GDP EU-wide should be spent on a European growth and employment pact in addition to national initiatives in order to bring the European economy to the fore. The poor outcomes have nothing to do with structural weakness and rigidities which existed in Europe when growth was good and reaching between 2.5% and 3% (1995-2000). The investment plan should not only focus on infrastructure in general but also on investment in social infrastructure from lifelong learning to childcare and care for the elderly, a special plan on gender.

(v) Increasing ownership of the Lisbon Agenda does not only address the European institutions and the governments of the member states. The participation of all parliaments at all levels, of social partners and of civil society is needed in order to contribute to democratic structures and credibility.

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THE LISBON STRATEGY: WHAT IS WRONG?

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SUMMARY

The paper analyses problems of the Lisbon Strategy by dealing with different aspects of that topic. It analyses basic aspects of the present economic problems in the European Union and reviews the outline of the Lisbon Strategy adopted in 2000 and corrected in 2005. It further looks into results which have been obtained at the level of the European Community and also of the member states. Finally the paper proposes some alternative paths that could be envisaged. The diagnosis of the Lisbon Strategy regarding the situation of the European economy is correct. Nevertheless, the message of the European institutions is unbalanced, because it seems that only the "black scenario" is used in communicating the Lisbon Strategy to the public. The action programme of the Lisbon Strategy is insufficient since its means are too limited. Furthermore, targets on non-economic aspects have been dropped, while initiatives at the Community level are not developed enough. There is an urgent need to reintegrate social and environmental objectives in the Lisbon Strategy.

INTRODUCTION

The Lisbon Strategy is an important topic for two main reasons. These reasons in themselves form a paradox. Firstly, for the first time in the history of European integration, we have a European project which is clearly not only an economic project but also a society project. The common market in the 1960s was mainly an economic project, same as the single market in the 1980s and the single currency in the 1990s. The Lisbon Strategy is much broader in scope. This is made obvious by the variety of the themes covered and the policies envisaged. Secondly, this highly ambitious project has been until now the least successful of the European projects in decades. Certainly, it has not had the expected mobilising effect on society.

In fact, the basic design of the Lisbon Strategy has always been contradictory. Basically, it arose from a will to make Europe more popular, but the way it was done has not led to success in this. In fact, there was a mistake in the original design, and it has been compounded later by a second mistake in communication. The diagnosis at the basis of the Lisbon Strategy was, in my opinion, quite clever. It stated that the programme of action was unbalanced, and that the communication was worse.

The defects of the Lisbon Strategy have, in my opinion, a direct link with the growing unpopularity of the European institutions. This unpopularity was confirmed in 2005 by two negative referendum procedures in two member states traditionally in favour of European integration. Consequently, this presentation has a direct link, not with the way countries can win a referendum, but with the way countries can lose a referendum. The extent of the problem is revealed by the fact that a lot of European politicians precisely do not see this link.

To give a proper analysis of the problem, it is necessary to deal progressively with the different aspects of the topic. We shall thus see: a few basic aspects of the present economic problems of the European Union; the outline of the strategy adopted in Lisbon in 2000 and corrected partly in 2005; the results which have been obtained at the level of the European Community and also of the member states; and finally some alternative paths that could be envisaged.

THE PROBLEM: THE ECONOMIC SITUATION OF EUROPE

The dawn of a new era

It is easy, in these times of exacerbated marketing, to overemphasise the changes in our economic system. Nonetheless, one can only be struck by the depth and the scope of these recent changes. Essentially, we face the combination of two phenomena: the information society and globalisation. Their combination tends to increase their repercussions, and accelerate the trend. We are thus entering into a new economic era, largely different from what we have known so far.

It is important to have an idea of the scope of this mutation. This is not a revolution, in the sense that our world does not change in one night. On the other hand, it is a permanent pressure, which guarantees very important changes over ten years. Let's take a look at the information society. In the sector of information and communications technologies (ICT), one has seen an increase in productivity of 400% over ten years. This means that you must either reduce personnel by 75% or keep personnel and increase the volume of production by 400% (which means developing a lot of new products and services). Now let's take a look at globalisation. It has been estimated that the US will outsource 4 million jobs to the developing countries in the next five years. This represents a lot of re-adaptation for a lot of people (OECD, 2005; Levy and Murnane, 2004).

One of the strengths of the Lisbon Strategy is precisely its analytical subtlety. It underlines the depth of the present economic mutation, the structural nature of many evolutions. To cope with the challenges that I have just mentioned, we will need a lot of new products, new services and new capabilities. These capabilities are the most crucial element. Without them, we shall not have the new products and services. The present changes rely on short-term and long-term cycles, of course, but also on heavy structural evolution. The solutions cannot be based only on macroeconomic measures. This explains the accent on the emergence of the information economy and the knowledge society. From this point of view, one can only admire the technical preparation of the Lisbon Strategy (Rodrigues, 2003).

Two possible presentations

This being said, one can only be struck by the darkness of the public communication related to the Lisbon Strategy. Of course, the present economic situation presents challenges. But is the situation so catastrophic? There are permanent gloomy comparisons with the United States. Do we live in such a poor, dependent, arthritic continent? In fact, there are (at least) two ways to present the current reality of Europe. One could imagine the shooting of two movies. One movie has a “black scenario”. The other one has a “pink scenario”. My suggestion is that the reality probably lies in the middle.

The black scenario

The black scenario can be summarised in a few elements:

Old age

First, we are becoming a grey society. This is a worrying trend, in the sense that, being demographic, it cannot be corrected for at least a generation. Our European countries are composed of more and more old people for (at least) two reasons: average life expectancy is increasing continuously and average fertility has fallen below replacement levels so that natural population growth has now turned negative. This constitutes a real challenge for our social protection systems, more specifically for the pension and healthcare systems. Indeed, an increasing proportion of elderly people implies permanent increases in pension and health expenditure.

There are discrepancies. In France, for example, the trend is more limited. But in other countries, the population is purely and simply decreasing very quickly, because migration strongly accentuates the tendency. Thus, in 2004, the French population increased by 6/1000, but Hungary decreased by nearly 2/1000, Estonia by 3/1000, and Lithuania by 6/1000 (Eurostat, 2005). In synthesis, there is more or less no population growth in Europe, and 80% of any growth is based on immigration. This is absolutely essential when one compares the various growth percentages in the world.

Old productions

Second, new competitors, strong and quickly growing, such as China and India, have appeared. These emerging economic powers have more and more influence. In a few years, China could become the second biggest economy in the world. In many sectors, it has already become the first exporter. The EU textile and clothing sector (especially clothing) has become a symbol of this evolution. For clothing, between 2001 and 2004 in the EU, imports increased by 9% on a yearly basis, and exports decreased by 5.4%. During the same period, the share of China in EU textile imports increased by 43.6%, and in EU clothing imports by 37.6%. Finally, in one single year, between 2003 and 2004, the amount of jobs in the EU textile and clothing sector decreased by 7.4%.

EU enterprises (and more particularly those of the old member states) are thus obliged to adjust. They need to develop new products and cut their costs otherwise they risk running out of business. This is particularly true in sectors that are dominated by price competition.

Long-term unemployment

Unemployment remains too high - and too long - in many places especially for low qualified people. In the European Union, “in 2004 the inactive population of working age (15-64) in the EU-25, i.e. those that are neither working nor actively seeking and immediately available for work, amounted to some 92 million people, corresponding to an average inactivity rate (the residual of the activity rate) of 30.3%” (ECC, 2005). This is very far from glorious.

Weak adaptation to ICT

Adaptation to the information society remains so far too limited in the countries of the European Union. From this point of view, it is interesting to notice that a good deal of limited productivity increases are linked to a very timid introduction of ICT in EU corporations (Gros, 2005). This seems connected to the weightier difficulty of introducing organisational changes in EU corporations (ECC, 2005).

On the basis of these elements, there thus exists a fear that Europe will become a sort of museum for the economic experiences of the past. One could conclude that the countries which launched the Industrial Revolution do not know any more how to manage the next one. And this engenders the fear that Europe will become a sort of "Jurassic Europe".

The pink scenario

This said, there is another way to present the reality of the European economy. This more hopeful way could be called "the pink scenario". It reveals that things are not that dramatic. Indeed, in the present economic situation of Europe we can find positive elements (see Highlights from the Centre for European Reform Conference on the Future of the European Economy, 2005; Buhigas and Bouzon, 2005). This is particularly true in a more in-depth comparison with the US. A general negative comparison with the US has indeed become the motto of all official presentations of the Lisbon Strategy.

Growth per working hour is not that bad

It has often been said that growth has been stronger in the United States, and that is true. But which growth are we speaking about? During the last census in the United States, millions of people who had not been officially registered have suddenly been discovered. In fact, there has been a strong population growth in the United States, which explains a good part of the economic growth. When we compare the growth per inhabitant, the difference between the two zones (EU and US) diminishes strongly.

This difference becomes still smaller if we take into consideration working hours on a yearly basis. From this point of view, the difference between Europeans and Americans is striking (Blanchard, 2005).

Finally, we could also speak about productivity. In this case, we need to take into consideration multifactor productivity. From this point of view, according to the OECD *Factbook 2006*, there are much more important differences within the European Union than between the EU and the US. French people, for example, would be very surprised to learn that between 1991 and 2003 there has been absolutely no difference at all between France and the United States. This is certainly not what you can presently hear in the French media.

The debt situation is not that bad
Even if we accepted the idea that growth is substantially higher in the United States, we must compare comparable things. The American growth has been fed by an orgy of debt. Regarding the public debt, deficit went from +1.6% to -4.6% between 2000 and 2004. Domestic saving is now more or less at 0%, which is rather low. The current payments deficit in the same period (2000-2004) went from 4.26% to 5.72% or even 6% of GNP, and is still growing (Truman, 2005). With such financial firepower, one needs to be very clumsy not to provoke some kind of additional growth. From that perspective, what is amazing indeed is that the difference between the US and the EU is not stronger.

We have survived a strong petrol shock
One must also not forget that the price of petrol has tremendously increased in the period 2004-2006. Between 2001 and 2005, the nominal oil price went from \$18 to \$68. Of course, the real increase is a little bit more limited. Nevertheless, this created very heavy pressure on businesses. It is noteworthy that EU growth was not strongly reduced.

The environmental situation has improved
Finally, one must see that the EU corporations have to take into consideration quite a heavy load of environmental regulations. By this, I do not mean to contest these regulations in any way, as they are absolutely necessary to improve prospects for sustainable development. Nevertheless, being a lighthouse can cost a lot, and to appreciate the extent of EU competitiveness, we must also take that into consideration.

We can find another element of comparison from that point of view in the price of oil. The level of taxes on oil consumption is on average ten times higher in the countries of the euro zone than in the United States. This explains why energy intensity of production is higher in Europe. This is also a competitive disadvantage.

Conclusion

With regard to the analysis we have just made through the black and pink scenario of the present economic situation of Europe, one can conclude that, on the one hand, the Lisbon Strategy goes in the right direction at least at the level of its diagnosis which is strong and which brings an added value. We are clearly going towards a new information economy, which leads us surely to another society: the knowledge-based society. This situation requires structural changes and these structural changes call for structural initiatives. So it is crystal clear that various reforms have to be implemented.

On the other hand, however, we have seen that the present economic situation of Europe has positive and negative aspects. Nevertheless, it seems that only the black scenario is used to sell the Lisbon Strategy to the public. It considers that Europe had only disadvantages in comparison with the US. This is, in my opinion, simply not true.

This permanently black description of the present economic situation of Europe has a negative effect. It intensifies the neurasthenic character of public opinion. You know like me that people are often worried (see the polls before referenda). That is why the "European speech" should offer a perspective, and not only compound the problem!

THE ANSWER: THE LISBON STRATEGY

On this part, we can be quicker. Firstly, the Lisbon Strategy process in itself is a well-known topic. Secondly, it is better to focus on the most important problems and not to lose ourselves in bureaucratic details.

In fact, there are two versions of the Lisbon Strategy: the original version and the revised version. The original version was adopted at the European Council in 2000 with much hype. The revised version, presented as a more humble one, was adopted in 2005 (Bailly, 2005). Unfortunately, in my opinion, the revised version is worse than the original one.

The original version (2000)

What was basically the original version of the Lisbon Strategy?

First, various objectives were defined: economic, social and environmental. They aim at creating an "information society for all". The economic objective implies the creation of a research and innovation area, the achievement of the internal market and the coordination of the macroeconomic policies. The social objective aims at investing in training and education and at leading an active policy for employment, including the prolongation of professional activity, the modernisation of social protection and the fighting of exclusion. In addition, it has been declared that the change to the knowledge-based society must be done on the basis of the European social model (EPC, 2004). The environmental objective aims mainly at tackling climatic change and at dissociating economic growth from the use of resources.

One needs to measure the depth of these ambitions. Never in the history of European integration since the 1950s had the European institutions committed themselves to so many deep reforms. The common market, the single market, and the single currency were mainly economic programmes (with, of course, strong collateral implications for society). Here, they commit themselves to the global reform of the welfare state. There is a tremendous difference in scope, which was not correctly underlined at the time.

This new element has of course an evident link with the instruments which have been foreseen. There is a relation between the nature of the ambitions and the nature of the instruments which have been chosen.

Second, to reach these various objectives, various instruments at different levels were to be used. They encompass both European Community (EC) measures (regulations and directives) and national measures for the most important part through the Open Method of Coordination (Dehousse, 2004; Pochet, 2002)[1]. This is, from a political point of view, one of the most important innovations of the Lisbon Strategy. The previous EC programmes of action (the common market, the single market, the single currency) were based exclusively or mainly (for the single currency) on EC measures. The Lisbon Strategy is the first programme of action based mainly on national measures. The consequences of this new element should not be underestimated.

This said, at first sight, one contradiction arises. The Lisbon Strategy has very big ambitions - in fact more than the single market or the single currency. This is all very well, but there are very limited resources to fulfil them. For the most important part of the implementation of the Lisbon Strategy, the resources are national measures. At the EC level, there are no serious legal constraints and no budgetary outlays. So there is an obvious discrepancy between the ambitions and the means. This constitutes a problem. Europe is in charge of things that it cannot control (and about which the member states are not eager to act as we will see later) and for which very limited resources are available. This does not look like a good recipe for success.

1. There are already libraries of comments dedicated to the Open Method of Coordination (OMC).

The revised version (2005)

In 2005, it would have been wise to correct this deficit between the ambitions and the means, but one must recognise that it has not been done. There were corrections but these corrections did not aim at increasing the resources. These corrections aimed at decreasing the ambitions, and, surprisingly, at reducing the means.

So what has the revised version of the Lisbon Strategy brought in 2005?

- Fewer objectives: the priority is from now on given to the economy. This means that the EC institutions will concentrate on policies that boost growth and employment. Social and environmental objectives are largely abandoned. They are now at the bottom of the priority list.
- Less coordination: the European Commission had to point out member states which were successful in the reforms and those which were not successful, but even this has been given up.
- Less appropriation by the EU: the member states are more than ever responsible for finding most of the resources.

So one must wonder: where now is the added value of the European approach (Pisani-Ferry and Sapir, 2006)?

We can now see, in this revised version, two contradictions. Firstly, there remains a strong discrepancy between the ambitions and the means. Secondly, it has become more difficult to convince public opinion. We want to convince people to accept difficult reforms, but at the same time we have reduced the perspectives that we offer them.

In conclusion there are two problems. There is a means problem (instruments and process). If the problem is so fundamental, means should logically be increased. There is also a communication problem. A lot of people do not feel committed to a programme which has no social and environmental perspectives. This creates a communication problem. People want a positive perspective. The revision of the Lisbon Strategy has reinforced the "doom and gloom" aspect of the strategy and reduces the involvement of average citizens in the reforms.

THE RESULTS OF THE LISBON STRATEGY

Globally limited results

How much has been achieved so far? Here, we need to look first at the global results and then distinguish between the results at the EC level and the results at the level of the member states.

Globally, the results are limited. Economic growth has not been impressive. R&D remains more or less constant. Structural reforms remain limited.

Nothing in these limited results is surprising. We have a basic equation with no unknown element:

fewer ambitions + fewer means + no positive perspectives = limited results.

However, if the results are limited, they are not completely negative. Europe has begun a phase of structural adjustment to the ICT, to globalisation, to the rise of energy costs, to the rise of social security costs. There remains some modest growth.

The huge difference between the EC and national levels

At the EC and at the member state levels, there is a strong difference in the delivery of the results. At the EC level, a lot of the measures which were announced in 2000 were adopted between 2000 and 2005. So there are results. They concern more specifically sectors which were opened late to competition. These are the transport, electronic communications and energy sectors. The market opening has been broadened for railways and airlines, as well as for gas and electricity thanks to the adoption of new instruments. A new regulatory framework has been adopted and implemented for electronic communications. No need to say how much telecommunications and the Internet are essential for the expansion of ICT and thus for productivity. So at the EC level, the appraisal is not bad since some things have changed.

At the member states level, the results are obviously not as good as at the EC level. Structural reforms on employment, pensions and training have only started (particularly in the smaller countries). Concerning R&D, member states are no better than the EC. There is not much improvement. On the OMC, one could say that the method is so open that there is not much coordination (Collignon, Dehousse, Gabolde, Jouen et al., 2005; Georgopoulos, 2005; Goetschy, 2004; Pochet, 2001). For example, in Belgium we had a debate on "*prépensions*" (early retirement). The question concerned the increase of the age of early retirement from 58 to 60 years old. This debate was held without any reference to what happened or was happening in other member states. Belgium acted as it was the Galapagos Islands - without any contact with the outside world. This being said, there are strong variations between member states. Big member states are generally bad performers. Small member states are generally better. This is true for structural reforms, and also for public deficits. So Croatia could have reason to entertain hopes about its future participation in EC processes.

In conclusion on this third part, there are two main lessons. First, the results remain weak, which is quite normal with limited means and limited incentives to participate. Secondly, basically the EC has delivered results and the member states have not. Their implementation of the Lisbon Strategy has been poor.

The fundamental question then becomes: what should be done to improve the delivery?

THE ALTERNATIVE PATHS

We have seen that from the beginning the Lisbon Strategy has had a deficit between its ambitions, even if they have been reduced, and the means to attain them. This situation has transformed the EC into a kind of bureaucratic talking shop which does not produce much, except endless speeches. This is not good.

In addition, a message has been delivered saying “something must be done to improve the economic situation of Europe” and at the same time almost no action is taken. Simulating action is the worst communication strategy. It inevitably brings communication problems with the public.

To suppress such a deficit, which begins to undermine the credibility of the Lisbon Strategy, and of the EC itself, there are two alternative paths. They are much more logical and they bring simplification.

The first one consists in reducing once again the level of the ambitions. If governments do not want to add supplementary resources, then it would be better to reduce the ambitions and send back the responsibility of almost everything to the member states. This solution would mean “more decentralisation”.

The second one consists in increasing the means. If governments want to keep strong ambitions, they have to add additional means. This solution would mean “more integration”. Personally, this is the solution I find the most convincing one. The challenge of the Lisbon Strategy remains essential for our future and thus we cannot afford to reduce once again the level of ambitions.

More decentralisation

On this alternative, we can afford to remain modest, since the approach is very modest itself. More decentralisation would basically imply two elements. All the single market aspects (and maybe some parts of the environment) are the responsibility of the EC and the rest is the responsibility of the member states. So telecommunications, energy, services and transport go to the EC. Social problems, most of the environment and structural reforms go to the member states.

The strong advantage of this approach lies in its transparency. It then becomes very clear that the EU institutions are not responsible for the essentials of the programme of action. Inaction or bad results can thus not be considered as their responsibility.

More integration

It would of course be too ambitious to try to design a full alternative programme of action. There are nevertheless a few elements which seem relatively obvious.

First, the EC legislative level must deal with the single market and the environment regulation (energy taxes, infrastructure charges). If we want to support sustainable development, we need to increase energy efficiency. In that perspective, measures should be taken to harmonise taxes for the use of energy resources and for the use of transport infrastructures. Here, there is a void in the present Lisbon Strategy. A rebalancing of taxes (and thus no global rise) would allow reducing financial charges on employment, and especially low qualified jobs.

Second, there should be an EC macroeconomic level that increases the coordination of national economic policies and creates a stabilisation fund (at least for the euro zone). In the present situation, the EMU is unbalanced because we have a fully fledged European monetary policy and no correspondent European economic policy. This situation puts too much responsibility or pressure on the monetary instrument. Governments in the euro zone often say that they want to cooperate but, in practice, they do not and this lack of cooperation is costly (Aghion, Cohen and Pisani-Ferry, 2006).

Macroeconomic interdependence is strong in the EU and still much stronger in the euro zone. We are dependent on a daily basis on what happens in the member states. That is why, for example, it would be much better if the budgetary policies on structural reforms were seriously coordinated, at least in the euro zone.

Third, an effort should be made to increase the EC budget. We must put our money where our mouth is (ICT, networks, environment, and corporate restructuring). We thus need to increase the EC budget but with new priorities. From that point of view, the financial perspectives adopted for 2007-2013 by the European Council hesitate between the scandalous and the ridiculous. The sacrifice of research spending is nonsense.

In 2003, the Sapir Report, ordered by the Prodi Commission proposed a strong reorientation of the EU budget. This was meant to increase significantly the outlays for employment, networks, training and research. This should have been accompanied by an increase of global outlays.

Fourth, member states must have environmental and social targets (softer thus than regulations) in order to fight the fear of change. I come back to my original point. People will get involved into EU programmes if they feel they have an interest. In 2005 two objectives were abandoned for the sake of concentration on more efficiency. I did not see where the efficiency argument was at that time. I certainly do not see it now in the results.

The subsidiary argument

Some people could say here that such a programme of action (the solution for more integration) would violate the subsidiary principle. It is an important argument, and it is necessary to deal with it.

As we know, the subsidiary principle is enshrined into Article 3.b of the EC Treaty. It concerns the exercise of shared (meaning not exclusive) competences by the European Community. It requires proving that an EC initiative will be more efficient than a national initiative.

Concerning the first element of a more integrated strategy, we could say that energy taxation and better infrastructure costs have already been proposed by the Commission and discussed by the member states. It was not said that it was against the subsidiary principle. There was a disagreement between the member states regarding the best level of taxation. In fact, because of the single market, the only way of having such measures adopted is precisely to adopt them at the EC level. If we do not, we create distortions of concurrence between the transport companies.

I could be more detailed about the challenges created by the strong rise of oil prices during the last two years and the absolute necessity of a common answer from the EC, but there is on space.

Concerning the second element, economic cooperation was already mentioned in the Treaty of Rome in 1957. It certainly is an EC competence since the adoption of the Maastricht Treaty. Since the 1980s, we know very well that macroeconomic policies adopted by a single member state have very little effect. So the efficiency of a coordinated approach has been proven again and again.

Concerning the third element, the proposals of the Sapir report have never been criticised with regard to the subsidiary principle. They were criticised by people who wanted to maintain the present structure of spending, meaning firstly in favour of the agricultural sector. Furthermore, outlays like research or networks have certainly an added efficiency if they are done at the EC level. Where is the use of financing five different systems of electronic localisation of goods or helicopters?

Concerning the fourth element, we must see here that it represents only a political commitment of the member states. This does not concern the adoption of EC measures at all. And consequently it has nothing to do with Article 3.b of the EC Treaty.

This solution of more integration has thus a clear added value. It is a pity that member states do not see it in the present context.

GENERAL CONCLUSION

It is difficult to summarise in such a complex domain. Nevertheless, in a nutshell:

- The diagnosis of the Lisbon Strategy regarding the situation of the European economy is basically correct, and even quite subtle on some aspects.
- Nevertheless, the message of the European institutions is unbalanced, because it is excessively negative.
- On the reverse, the action programme of the Lisbon Strategy is basically insufficient. Firstly, means are too limited. Secondly, targets on non-economic aspects have been dropped. Thirdly, initiatives at the EC level are not sufficiently developed.
- Furthermore, on this point also, the message of the European institutions is also unbalanced, because it does not underline this structural weakness.

All this is a very dangerous for the communication strategy. Many things that have happened during the last years entertain some kind of connection with these contradictions. Some will say that the EU is unpopular because it deals with too many things. But others could say that it is unpopular because it does not deal enough with the basic problems of the citizen (which cannot be dealt with by the member states anyway).

In my opinion, there is thus an urgent need to reintegrate social and environmental objectives in the strategy, and also to show the link with the other parts. This would make the message more positive and give back a perspective to people. Unfortunately, we have done precisely the reverse. There is also a need to develop EC initiatives.

Finally, I'd like to come back to the present debates about the legitimacy of the EU institutions. We can adopt the most magnificent communications about plan B, C, D or even Z. We can print torrents of speeches. We can adopt the most seductive press releases. Nevertheless, basically, the bottom line remains the same. Reciprocity is a fundamental principle of human affairs. So, if you want people to invest in Europe, Europe must first show that it invests in people.

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THE LISBON PROCESS IN THE EUROPEAN UNION: LESSONS FOR CROATIA

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THE LISBON PROCESS IN THE EUROPEAN UNION: LESSONS FOR CROATIA

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SUMMARY[1]

The paper analyses the Lisbon Process taking into account both the challenges faced by the economies of the EU member states and the Lisbon Strategy that was expected to address these challenges. The starting point is the analysis of the GDP per capita gap between the EU15 and the US and the indicated sources of this gap. The Lisbon Strategy of 2000-2005 is analysed as well as the renewed Lisbon Strategy accepted in 2005. In this analysis both the weaknesses and strengths of the Lisbon Process are indicated as a tool fostering structural reforms in the member states. Finally conclusions are drawn from the Lisbon Process for EU acceding countries like Croatia. Recommendations for the candidates are that the Lisbon Process as a reform programme should be taken into account. There are good examples of some old and new EU member states that implemented deep reforms, often difficult at the beginning but fruitful in the long term. The Lisbon Process, while not ideal in its essence and method, can be used as a stimulus for such a policy, although the effectiveness of the Lisbon Strategy cannot be overestimated, because the most important economic reforms have to be accepted and implemented at the national level, not the EU one.

1. This article is partially based on my paper “Economic Reform in the European Union: Will the 'Lisbon' EU Catch Up with the US?” (published in: Bieńkowski W., Brada J., Radło M-J. eds (2006), *Reaganomics Goes Global. What Can the EU, Russia and Transition Countries Learn from the USA?*, Palgrave Macmillan, London) as well as on the report “National Reform Programs: Key to Successful Future of the European Project?”, which I co-authored and co-edited.

INTRODUCTION

The Lisbon Strategy was accepted in March 2000 and became the most comprehensive growth-supporting economic programme in the history of the EU, covering reforms in several areas, including product and labour markets, research and development, investment in human capital, improving the business environment, social security systems and the like. The strategy started at the same time as the European Union entered into the final stage of its eastern enlargement and it has meant that economic reforms are another fundamental challenge - alongside enlargement -to be faced by the Union.

The initial aim of the Lisbon Process was to make the Union "*the most competitive and dynamic knowledge-based economy in the world*" by 2010. Nonetheless, a few years after its adoption, right after enlargement, the strategy did not seem to have been a success. There were many weaknesses in the strategy that were identified early on. Among the most commonly indicated were that there was too wide a range of inconsistent priorities resulting in a lack of clear priorities; soft methods of implementation resulting in a lack of implementation; and the omission or watering down of guidelines as to how desirable reforms were to be implemented. The strategy's shortcomings caused the EU leaders to launch a mid-term review and to renew the strategy in early 2005. As a result, at present, the Lisbon Process is anchored among the main instruments of the economic policy coordination system in the European Union aimed at fostering structural and regulatory reforms in member states. It also concerns not only 15 member states, as in the first stage of the Lisbon Process, but 25. The accession countries, such as Croatia, while encouraged, are not obliged to take part in the Lisbon Process. However, it is useful for these countries to study the successes and failures of the European Union in fostering structural "Lisbon" reforms. Such a critical study seems to be essential for those looking for economic policy guidelines that can help to manage the transition to the market economy and becoming a part of the single market. From this perspective, adjustment to EU requirements, as stipulated in the Copenhagen criteria or the *acquis communautaire*, can only partially serve as a good guideline. The inefficiencies of some of the European social and economic models as well as the failures of the Lisbon Process show that accession countries, when trying to adjust their economic models to those of the EU, should go beyond the current European status quo in order to avoid falling into the trap of Eurosclerosis. Critical assessment of the Lisbon reforms enables us to look at the Union and the adjustment process without rosy glasses, because not only do the transition-accession countries need to reform their economies but also the EU member states' old market economies need to adjust themselves to the competitive forces of the global economy.

CAUSES OF REFORM

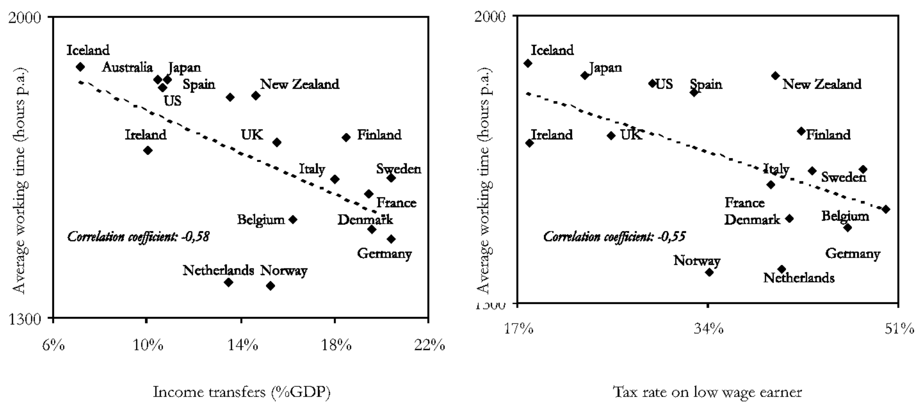
A crucial reason that made the EU implement the Lisbon Strategy was the fact that in 2000 the GDP per capita gap between the EU and the US economies was larger than it had been since the beginning of the 1970s. The real GDP gap was even larger than that suggested by per capita indicators, because of the higher population growth in the US. Particularly interesting observations can be drawn from the analysis of this gap. The GDP per capita of the EU15 in 2000 represented about 70% of the US GDP per capita. But labour productivity per hours worked in the EU15 was very close to the US level, about 93%. Furthermore, labour productivity per person employed in the EU15 was also much closer than GDP per capita, representing about 85% (Eurostat, 2004). These differences were due to a shorter average working time in the EU in comparison to the US, lower employment rates and differences in demographic structures. There were also substantial differences in employment rates between the EU and the US (the employment rate in the EU was only about 64% while in the US it was over 73%, OECD, 2002a).

Therefore lower labour utilisation in the EU in comparison to the US can be seen as a crucial source of the GDP gap between these two economies. According to some economists (for example, Turner, 2003), the systematic shortening of working time and falling employment rates in Europe reflects a preference for leisure. Another explanation is proposed by Freeman and Schettkat (2005), who hypothesise that the greater time worked and the higher employment rates in the US are due to the greater marketisation of traditional household production in the US. These explanations are interesting, but there are important reasons why the bulk of the blame should fall on labour and product market regulations as well as on welfare state benefits for the relatively short working time and low employment rates in many European countries.

The lower employment rate in the EU, to some extent, may, however, result from a relatively low level of human capital. Only 21% of the people of working age in the EU15 have a tertiary education, while in the US the figure is almost 37%. These figures are very important when you take into account the fact that the employment rates of people with tertiary education in the EU are similar to the US rates, and only the rates of employment of less educated people are lower.

These data show that the lower level of human capital is a source of lower utilisation of human resources in the EU economies. But these data also indirectly show that it is likely that institutional solutions present in the EU do not support job creation for employees with low qualifications. Institutional problems are also indirectly confirmed by the fact that the Union faces much more serious employment problems than does the US, including also long-term and structural unemployment, although these problems are also connected with a lower level of human capital.

Figure 1. Average working time vs. income transfers and tax rate on low wage earners[2]



Source: Author's calculation using: OECD, 2002c and Eurostat, 2004

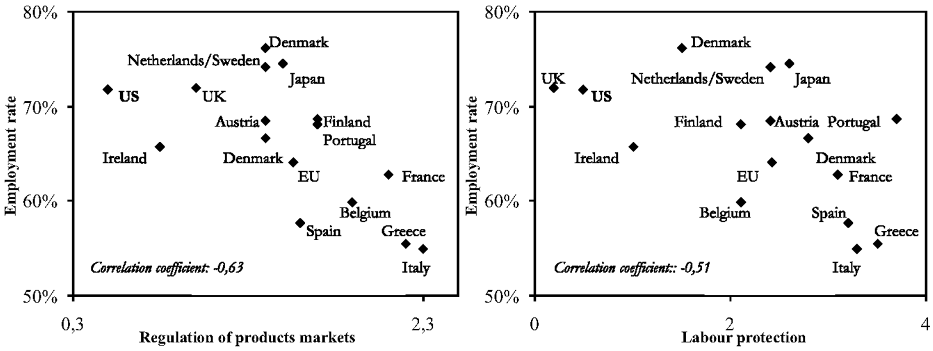
As Figure 1 shows, the shorter average working time in many European countries can be explained by the fact that more sources of income other than salary are available for EU employees. Countries in which, in 2000, spending on income transfers represented a larger part of GDP had, at that time, a much shorter working time than the countries that spent less on these transfers. The correlation coefficient between these two variables amounts to −0.58, calculated on the basis of the data for EU member states, the US, Japan, Norway,

2. The tax rate on low wage earners calculates the income tax on gross earnings + the employee's and employer's social security contributions and then expresses this sum as a % of the total labour cost for this low-wage earner. Tax rates are calculated for a single person without children. When in work, this person earns 67% of the average wages of full-time production workers in manufacturing.

Iceland, Australia and New Zealand. This means that there is an inverse relationship between the availability of income other than salary and the tendency to lengthen working time. Like income transfers, the level of income taxes also influences the reduction of working time. EU member states, in comparison to the US, have a relatively high level of taxes imposed on labour. The correlation coefficient, -0.55, between the level of taxes imposed on labour and the average working time also confirms a negative relationship between taxes and average working time.

Institutional conditions influence not only average working time in the EU, but also employment. In Figure 2 we show the relation between the levels of product market regulation and the degree of protection of the labour markets on the one side, and employment rates on the other. The data show that the higher the level of employment protection and the more severe the product market regulation, the lower the employment rates in the economy. EU member states with the highest levels of product market regulation and the highest employment protection rates, such as Italy, Greece, Belgium, Spain and France, have at the same time the lowest employment rates. And vice versa, countries with lower product market regulation levels such as Great Britain, the US or Denmark, have the highest employment rates.

Figure 2. Employment rate vs. regulation of product markets and labour protection



Source: Author's calculation using: Nicoletti, Scarpetta and Boylaud, 2000; Eurostat, 2004

This is reflected in a substantial positive relationship between the level of product market regulation and employment protection and unemployment. A similar analysis prepared using the same data for regulation and rates of unemployment shows that the level of unemployment in the analysed EU member states, the US and Japan is positively correlated with both the level of product market regulation and the employment protection level. The highest unemployment in 2000 could be observed in EU countries with the highest levels of regulation: Spain, Greece, Italy and France. Countries with the lowest regulation and protection levels - Ireland, Great Britain, Denmark and the US - had low unemployment rates.

Table 1. Changes in the structure of public spending in the EU, period 1963-2000 (%GDP)[3]

	1963	1975	1985	1989	1993	2000	Change 1963-2000 (% of GDP)
Government consumption	15.09	18.36	20.23	19.46	21.08	19.90	+4.81
Government investment	3.80	3.83	3.12	3.10	3.06	2.54	-1.26
Subsidies	1.44	1.97	2.24	1.96	1.84	1.42	-0.02
Income transfers	11.58	17.45	19.29	18.68	21.39	20.67	+9.09
Total government disbursements	33.01	43.51	49.45	47.80	53.09	47.16	+14.15

Source: Author's calculation using: OECD, 2003a

Table 2. Structure of public spending in 2000 in the EU, the US

	Government consumption	Government investment	Subsidies	Income transfers	Total Government disbursements
EU15	19.9	2.54	1.42	20.67	47.16
US	14.57	3.26	0.35	13.8	33.62
Difference: EU-US	5.33	-0.72	1.07	6.87	13.54

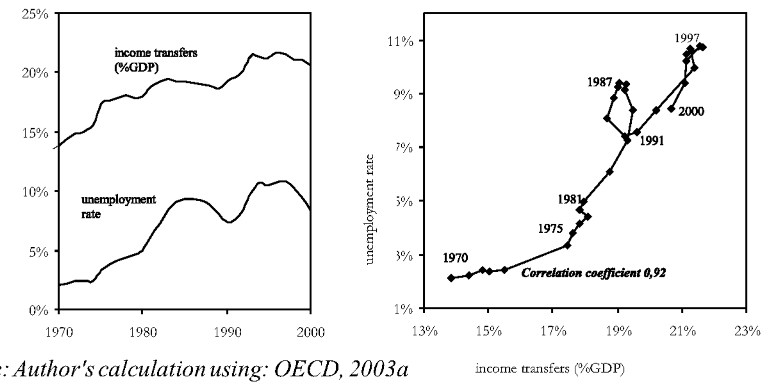
Source: Author's calculation using: OECD, 2003a

These relationships have already been demonstrated in analyses carried out by Nickell (1999) and Blanchard (2000). Their findings are generally consistent with the earlier observations made by Siebert (1997), who analysed institutional and regulatory change in labour markets in EU member states over the last four decades.

3. Social benefits paid by government and other current transfers paid by government.

The difference between the EU and the US economies concerns not only regulations and institutions but also the role of government in the economy. In the most general way, the government's role in the economy is described by indices showing public spending values in relation to GDP, and by the structure of this spending. The data presented in Table 1 show that the difference in the levels of public spending in the EU and the US amounted to almost 13% of GDP. Over 12.2% of this was due to much higher spending by the EU on income transfers, 6.87 percentage points, and higher spending on public consumption, 5.33 percentage points. An additional percentage point, which practically closes the entire public spending gap, comes from subsidies, which were higher in the EU than in the US. What is more, a specific feature of the difference in the structure of public expenditure in the EU and the US was that the only item in 2000 on which the EU spent less than the US in relation to its GDP was public investment outlays. In addition, the structure of spending in EU countries in 1963 was very similar to that of the United States in 2000 (see Figure 2). In this context, what is worthy of note is that, in the 1960s, the EU countries developed faster than the United States. A continuous increase in income transfers and public consumption spending, which can be observed in European countries since the 1960s, was connected to the creation of the welfare state. It was based on extensive social aid and a far-reaching public redistribution of income. These processes had, however, a very severe impact on labour markets. Growing access to income other than wages, measured by the value of income transfers, resulted in growing unemployment underpinned by a lack of incentives for looking for a job. Therefore, the unemployment rate since the beginning of 1970s grew at the same pace as income transfers, as shown in Figure 3.

Figure 3. Unemployment and income transfers in the EU15 (1970-2000)



Source: Author's calculation using: OECD, 2003a

The correlation between unemployment and income transfer levels in the time series from 1970 to 2000 shows that there is almost a linear relationship between these two variables, and the correlation coefficient is 0.92. In this context, Engen and Skinner (1992) investigated the impact of the growth of budget spending and tax revenue on the pace of GDP changes in 107 countries in the period from 1970-1985. These authors showed that there is an inverse relationship between changes in the levels of the states' intervention in their economies and the pace of growth of their economies. They found that an increase in public spending and tax revenue of 10% of GDP with a stable budget results in an average decrease in the pace of long-term economic growth by 1.5 percentage points. This relationship is confirmed by an analysis of changes in public spending and the pace of economic growth in the 1990s in the EU member states and the US and Japan, which shows that the pace of economic growth in the second half of the 1990s increased considerably in those EU countries that managed to significantly cut their public spending. Among them can be found not only low-spending countries such as Ireland but also traditionally high-spending ones such as Finland or Sweden.

To sum up, we emphasise that low labour utilisation in the EU in relation to the US is the main reason for almost 75% of the GDP per capita gap. This cannot be qualified as a consequence of a preference for leisure in the EU but rather of several institutional and regulatory features present in many European countries. As was shown, most EU member states still have both high levels of product market regulation and high labour protection. In addition, excessive regulation and low effectiveness of product markets and labour markets in the EU are integral to the social models of many EU countries. This model assumes excessive government expenditures, including, in particular, income transfers and public consumption spending. This is accompanied by the higher taxes imposed on labour. These factors discourage Europeans from taking up work or lengthening their working time and European companies from creating more jobs. All those conditions lead to a lower level of employment and lower working time in the EU economies than in the US.

LISBON FAILURES AND ITS SOURCES

The Lisbon Strategy was adopted in 2000, just before the dot-com bubble burst, but still at the time of a bit of naive enthusiasm for the so-called "new economy" or "knowledge-based economy". Consequently it was full of uncritical statements and opinions on the origins of economic growth, usually praising the development of the information and communication technologies (ICT) and the Internet, which were acknowledged to have been essential for economic growth in the second half of 1990s. This context had remarkable influence on the priorities of the Lisbon Strategy as well as on its rhetoric. For this reason the development of the most competitive "knowledge-based economy" and "information society" were among its main objectives. After 2000 the strategy was widened including many additional - and sometimes competing - goals and assumptions and it was expected to cover three dimensions, economic, social and environmental. Such a multidimensional approach demonstrated the EU's admiration for social cohesion and environmentally sustainable development. As a result, the strategy, since its beginnings, became both ambitious and difficult to be implemented. Moreover, many key reforms fostered by the EU were successfully blocked by domestic political pressure and the influence of vested interests.

The strategy of 2000 put the greatest emphasis on those factors connected with limited diffusion of ICT and innovation. It presented a relatively good account of the weak points of the EU economy caused by incomplete internal market development and particularly by strong barriers to product market functioning. Deficiencies in the functioning of financial markets were also presented quite successfully. But it addressed labour market weaknesses in only very general terms. On the one hand, it laid a great emphasis on the low level of human capital as a reason for the poor functioning of EU labour markets, but on the other hand, it failed to adequately discuss and address the institutional problems and tight regulations underlying labour market deficiencies, indicating only the high taxes deducted from salaries and making some suggestions concerning the role of a passive employment policy. Moreover the strategy produced only generalisations about the role of "the European social model" and evaded the question of its responsibility for providing ineffective solutions to labour market issues and making labour inflexible. Finally the strategy entirely omitted the issue of the negative influence of the level of employment protection on the level of unemployment, including structural unemployment, in the EU member states.

The same pattern reappeared in the schedule for action planned by the strategy of 2000. The actions concerning support for ICT diffusion and reinforcement of inventiveness were well planned, while the reform aimed at improving the business environment was less satisfactory. Deregulation of network industries and financial market integration were successfully designed. Unfortunately, the issues of reforming labour markets and social security systems were only mentioned in the strategy, but reform was not planned. Although they were included in the document, the actual formulated recommendations were very general and involved more consulting than reforming. Such a state of affairs was supported by political declarations cherishing the idea of a welfare state with an extensively developed social security system. These declarations precisely defined the limits of the reforms proposed in this field.

These weaknesses, together with too many priorities and soft methods of implementation, made the Lisbon Strategy ineffective. Before the mid-term review of the Lisbon Strategy it became obvious that without deep reforms of labour markets and social security systems, it will be impossible to raise labour utilisation in the EU.

LIMITED MID-TERM RENEWAL?

The review of the strategy took place during the European Council's Brussels summit on 22 and 23 March 2005 (European Council, 2005). It was not, however, a turning point in the EU's socioeconomic policy-making, but it nonetheless produced some positive effects. During the summit, support for growth and employment was defined as a crucial priority for the next five years of economic reform in the EU. While not questioning the three dimensions of the strategy, the economic dimension - aimed at fostering growth and jobs - was prioritised.

Despite several reservations, there are some positive features of the renewed Lisbon Strategy. One of the most important is the fact that all EU member countries had to write down their own Lisbon strategies - National Reform Programmes (NRPs) - taking into account their specific economic problems but at the same time in line with integrated guidelines prepared for all countries. The NRPs became a part of broader reconstruction of the economic policy coordination system. The new economic policy coordination system - for reforms - was accepted and based on a three-year cycle. It started in 2005 and will have to be renewed in 2008. The new economic reform governance started with preparation of the Integrated Guidelines for Growth and Jobs in accordance with the procedures laid down in Articles 99 and 128 of the EC Treaty and on the basis of the European Council conclusions. This means that implementation of the revised Lisbon Strategy was anchored in two existing Treaty-based instruments of economic policy coordination. The guidelines were prepared by the Commission in April 2005 and accepted by the Council in June 2005. There are 24 guidelines six of which (Nos. 1 to 6) are devoted to macroeconomic policy, ten of which (Nos. 7 to 16) to microeconomic policy and eight of which (Nos. 17 to 24) to employment policy. These three areas were to provide a framework for the establishment of National Reform Programmes. The macroeconomic guidelines focus on growth - supporting reforms of public spending supported by structural reforms. The microeconomic guidelines include product market reforms and some actions based on facilitating ICT diffusion and investments in research and development. The employment guidelines focus not only on investments in human capital and active labour policy, but also on promoting flexibility of labour markets and reform of social security so as to support job creation.

Member states were expected to draw up their own National Reform Programmes in line with both the integrated guidelines and their own needs and specific situation. The NRPs were expected to include three core chapters (macroeconomic policy, microeconomic policy and employment policy). Moreover, the Council encouraged member Countries to appoint their national Lisbon coordinators - so called Mr or Ms Lisbon. The national dimension of the renewed Lisbon Process is accompanied by a supranational one. It is based on the Community Lisbon Programme prepared by the Commission and devoted to all actions to be taken at Community level.

Within the renewed Lisbon Process a new monitoring system was launched, within which, every year starting from autumn 2006, member states will have to prepare reports on follow-up to the Lisbon Strategy. After submission of the reports, the Council and Commission will analyze the implementation reports and the European Commission will then issue an annual progress report assessing the National Reform Programmes issued by the member states. This may contain country-specific recommendations. The first progress report was issued in January 2006. On the basis of the Commission's assessment, the European Council reviews progress every spring and decides on any necessary adjustments to the integrated guidelines.

Thus, the new approach to the Lisbon Process reduces the number of targets and focuses the strategy on the two strategic goals of growth and employment, reducing, at the same time, inconsistencies between the Lisbon goals. It also improved the Open Method of Coordination (OMC) and strengthened national ownership of the Lisbon Strategy. Moreover, while nationalising the Lisbon Strategy, it drew member states into a reform coordination system in which the Commission plays the role of an independent monitoring agency, with the ability to assess progress of reforms as well as to present detailed national recommendations on what and/or how to reform. The monitoring system was equipped with an informal sanction system based on peer pressure created by a set of short-listed comparable economic indicators playing the role of official scoreboard, a national reporting system and the Commission's recommendations, as well as on an official review of the implementation process to be done by the March European Council.

All the above mechanisms are aimed at strengthening national ownership of the Lisbon Process and forcing national governments to implement necessary reforms. All the same, economic reform governance in the EU still has quite clear limits, especially if we take into account its ability to foster structural reforms. These usually take time, and often cause short-term costs that inhibit consistent policy and are politically unpopular. In such a perspective a crucial question is whether new supranational reform coordination measures are able to influence governments more than their internal political, social and economic environment. From this perspective, the prospects for the relaunched Lisbon Strategy are not optimistic. The rationale for Lisbon as a coordination process is still poorly articulated and until the conditions in a member state are conducive to reform, the likelihood of rapid progress will be very limited. Some comfort can be taken from the very fact that there is such diverse experience across Europe in trajectories of structural change, as it shows that good strategic policy choices can make a difference, with the smaller countries generally in the lead. Moreover, diversity affords the opportunity for one country to learn from another and thus to develop new solutions. Above scepticism was partially confirmed when analysing selected NRPs. These show considerable diversity in a number of respects (Radlo and Bates, 2006).

What all these observations suggest is that it will be difficult to raise the importance of the Lisbon Strategy in national political debate. As a consequence, the expectation that national accountability mechanisms will provide an incentive to governments to pursue hard choices may prove to be exaggerated. All the above lead us to the conclusion that we should not be too overly optimistic regarding the ability of the new economic reform coordination system to produce the results it promises. Again it becomes obvious that forcing governments to implement painful reforms can be very difficult.

CONCLUSIONS FOR CROATIA

Trying to summarise all that has been written above and to draw conclusions for EU accession countries like Croatia we have to stress that the Lisbon Process should be taken into account, as it is a reform programme that is expected to improve the functioning of markets in the European Union (i.e. labour and product markets) as well as to improve the effectiveness of market institutions and the effectiveness of the growth supporting economic policies. Several reforms stipulated in the strategy clearly show the direction the European economic model is evolving in. An even more important lesson can be drawn from the analysis of causes that made the EU prepare, accept and try to implement the Lisbon reforms. Such an analysis shows that regulatory environments present in several EU member states, even those most economically developed, are not friendly enough to support the effective functioning of markets. Moreover, several economic policies developed in these countries, for example social policies, also inhibit economic growth and draw people out of employment and, as a result, undermine social cohesion.

Due to the above, countries in transition from communism to the market economy, such as Croatia, while adjusting their economies to the requirements of membership in the EU, should aim at economic models and solutions that have to be implemented in current EU member states in order to restore the vitality of their economies. This, however, means that Croatia should avoid simply imitating economic policy solutions still present in many EU member states. Moreover, it should rather follow the examples of those brave European societies that decided to implement deep reforms that were often difficult at the beginning but fruitful in the long run. Such examples can be found in both the old and the new EU member states, that is. Ireland (after 1986), Slovakia (after Meciar) or the Baltic countries. These states, while being in the EU or aiming towards membership, decided to create flexible and entrepreneurship friendly economies with a limited role for the government. The Lisbon Process, while not ideal in its essence and method, can be used as a stimulus for such a policy and as a panacea for falling into the trap of Eurosclerosis. However, the effectiveness of the Lisbon Strategy cannot be overestimated, because the most important economic reforms have to be accepted and implemented at national level, not the EU one.

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LISBON AGENDA IMPLEMENTATION: THE EXAMPLE OF SLOVENIA

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LISBON AGENDA IMPLEMENTATION: THE EXAMPLE OF SLOVENIA

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SUMMARY

In order to achieve the Lisbon Strategy objectives, Slovenia must carry out structural reforms that will strengthen the competitiveness of its economy and raise its employment levels. The answers to questions concerning Slovenian development and the Lisbon Strategy have been provided by the 2005 Slovenia's Development Strategy, which focuses not only on economic issues but also on social, environmental, political, legal and cultural matters. The Slovenia's Development Strategy initiated adoption of several additional documents focusing on the Lisbon Strategy implementation. "The Framework for Economic and Social Reforms" is a document consisting of 67 measures covering mainly the first four priority areas of the Slovenia's Development Strategy, while "The Reform Programme for Achieving Lisbon Strategy Goals" identıfies five development priorities: a knowledge-based society; an efficient state; a modern social state; higher employment; and sustainable development. Preparation of strategic documents in Slovenia shows that involvement of stakeholders in the process of preparation of strategic documents and goals is crucial. The organisation of stakeholders' involvement implies the establishment of special institutional arrangements.

1. The views expressed in this paper are those of the author and do not necessarily represent those of the Institute of Macroeconomic Analysis and Development and the Government of Slovenia.

INTRODUCTION

Reforms are a reality for Europe. In 2000, the spring European Council recognised the need to pursue economic reform: to capture the benefits of the new knowledge-based society, to strengthen the European social system by investing in people and to prepare for challenges ahead. Change and modernisation of European policies are required, so that the values such as a high level of welfare, social cohesion and solidarity, high quality of life, accessibility of education and health care, participation of citizens in decision making, and sustainable development may be upheld in today's ever more dynamic and globalised world.

The world economy is experiencing a period of rapid and significant economic change characterised by substantial growth in world trade and capital flows, and driven by the increased integration of emerging market economies into the global economic system, trade and investment liberalisation and technological change. Today, globalisation is not merely an outflow of low-paid jobs and profits into countries with lower social standards. Just the opposite, new competition threatens Europe in areas that have until recently had the incontestable comparative advantage of the developed world. Every year, universities in India educate and introduce into the world market a quarter of million new engineers and, judging by the amount of money spent on research, China could catch up with the EU by the end of the decade. China and India are expected to increase their share of world output in future years with important consequences for the geographical distribution of EU trade and investment.

Slovenia is adapting its economic structure to the new European and global trends. A competitive economy requires well-structured public finance, market liberalisation and stimulation of market competitiveness, as well as a suitable environment for the development of entrepreneurship. Being a member state of the EU, Slovenia is thus building its national vision and basic strategic objectives based on the Lisbon development strategy targets: higher competitiveness, employment growth, and balanced social and environmental development.

THE RENEWAL OF THE LISBON STRATEGY

The Lisbon Strategy has set a goal that the EU will become *"the most competitive and dynamic knowledge-based economy in the world capable of* *sustainable economic growth with more and better jobs and greater social cohesion"*. Later, the strategy was also complemented by environment-related goals. Effective implementation of the Lisbon Strategy called for a comprehensive approach, a combination of different and harmonised instruments and policy measures, both macro- and microeconomic, as well as the achieved level of social consensus.

The findings of Wim Kok's report showed that the EU is not on course to meet its goals. Actually, it recognised that EU cannot be satisfied with the results achieved in relation to the Lisbon Strategy in the first five years. Implementation of the reform package agreed in Lisbon made progress in some fields both at the national and EU levels. However, the EU was way behind the set goals. The disappointing delivery was ascribed to an overloaded agenda and to shortcomings in governance. In other words, "Lisbon is about everything and thus about nothing. Everybody is responsible and thus no-one" (Pisani-Ferry and Sapir, 2006). We can conclude that Lisbon failed due to a lack of prioritisation, to bad governance and a lack of political commitment and ownership from the part of the member states.

The spring 2005 European Council approved the proposal for a new start to the Lisbon Strategy put forward by the European Commission earlier in the year. In line with the Commission proposal, the European Council refocused the strategy on growth and employment.

With the aim of improving the governance of the Lisbon Process, member states had to prepare three-year National Reform Programmes by mid-October, backed by concrete measures and targets for achieving higher and sustainable economic growth and greater employment. Identifying their own challenges and shaping priorities was a key to member states' greater national commitment to implementing structural reforms as well as an additional impetus for achieving a consensus and attracting other stakeholders to co-create reforms (national parliaments, social partners). National ownership is regarded as a key to the success of the renewed Lisbon Process.

Preparation of the National Reform Programmes was just a first phase of the renewed Lisbon Process. Now, the political will is needed to translate commitments, measures and announced reforms into real results for growth and jobs.

Five main challenges can be identified regarding the National Reform Programmes:

- better functioning of the labour market;

- promoting R&D and innovation, including greater investment in research;
- increasing the quality and sustainability of public finances;
- improving the business environment; and
- improving and encouraging education and professional training.

Table 1. National Reform Programmes for the Lisbon Strategy: identified goals of member states for 2010

	Total employment rate, in %			**Expenditures for R&D, as % of GDP**	
	2004	**2008**	**2010**	**2004**	**2010**
Austria	67.8	/	70.0	2.26	3.00
Belgium	60.3	/	70.0	1.93	3.00
Cyprus	69.1	/	71.0	0.37	1.00
Czech Republic	64.2	66.4	no data	1.27	2.06 (public 1.00)
Germany	65.0	/	no data	2.49	3.00
Denmark	75.7	/	Rise by 2%	2.64	> 3.00
Estonia	63.0	65.8	67.2	0.91	1.90
Greece	59.4	62.5	64.1	0.58	1.50
Spain	61.1	/	66.0	1.07	2.00
Finland	67.6	/	70.0	3.51	4.00
France	63.1	/	no data	2.16	3.00
Hungary	56.8	59.0 (2006)	63.0	0.89	1.80
Ireland	66.3	/	70.0	1.20	2.50 (2013)
Italy	57.6	/	no data	1.14	2.50
Lithuania	61.2	/	68.8	0.76	2.00
Luxembourg	61.6	/	no data	1.78	3.00
Latvia	62.3	65.0	67.0	0.42	1.50
Malta	54.1	/	57.0	0.273	0.75
Netherlands	73.1	/	no data	1.77	3.00
Poland	51.7	/	55.0	0.58	1.65 (2008)
Portugal	67.8	69.0	70.0	0.78	1.80
Sweden	72.1	/	80.0	3.74	4.00
Slovenia	**65.3**	**67.0**	**70.0**	**1.61**	**3.00**
Slovakia	57.0	/	no data	0.53	1.80
UK	71.6	/	80.0 long-term	1.79	2.50 (2014)
EU-25	**63.3**	/	**70.0**	**1.93**	**3.00**

Source: National Reform Programmes, EPC Report, spring European Council 2006

Most countries set out the goal of achieving a common employment rate. These goals on average exceed the current employment rates by 2 to 3 percentage points, which would mean around 10 million additional jobs by 2008. The Danish "flexicurity" approach was pointed to as a case of good practice, combining flexible rules for hiring and firing workers with high unemployment benefits and efficient active employment policies as well as incentives for additional education and training.

Member states indicated the goal of high growth in total expenditures for R&D by 2010. However, it remains uncertain whether an all-European goal of having 3% of GDP earmarked for R&D can be attained by 2010; currently it is exceeded only in Sweden and Finland. Almost all countries foresee an increase in public funding of R&D. The low level of participation of the private sector remains a problem since there is still no clear answer as to how to create a business environment encouraging, in particular, industrial enterprises to invest more in R&D. The foreseen 7th Research Framework Programme will no doubt contribute to the promotion of research and innovation.

The long-term sustainability of public finances presents a great challenge, with the problem of the ageing population placing a growing strain on public finances. In the coming decades, the share of the European population aged above 65 years will rise further in proportion to the size of the working-age population. Many member states foresee further pension and health-care reforms to ensure public finance sustainability. The financial sustainability of the pension insurance system is to be assured by gradually prolonging the retirement age (e.g. in Germany to 67 years), by introducing flexible forms of retirement encouraging longer participation in the labour market, and by reducing pensions upon early retirement.

Progress has been made in creating a business-friendly environment. Member states focused their efforts on improving the regulatory framework and reducing administrative barriers. A third of the countries foresee introducing a preliminary impact assessment of regulations and laws on the economy while as many as three quarters of countries quantified their goals in terms of easing administrative barriers. Although member states do not mention enhancing competition as their key goal, the strengthening roles of the competition protection offices in many countries is indeed a positive sign of improvement.

The measures presented in the NRPs are a good starting point for a new Lisbon Strategy, but obviously mere programmes are no guarantee of the goals actually being met. There is a need for a political commitment to structural reforms and their consistent delivery. The main challenge ahead is therefore to strengthen national strategies, notably by: stepping up the ambitions for reforms; matching specific policies to the ambitions; ensuring timely implementation of the measures; and properly monitoring the progress made in achieving the NRP goals.

The spring European Council in 2008 will show whether the efforts for increased ownership are enough and whether the EU will get another renewal of the already renewed Lisbon Strategy.

MACROECONOMIC AND SOCIAL POLICY FRAMEWORK IN SLOVENIA

Slovenia has narrowed its developmental gap relative to the EU but the catching up has been too slow in view of the set objectives. In 2004 Slovenia achieved 79% of the average GDP per capita in PPS in the EU (81% according to Eurostat's estimate for 2005). Slovenia narrowed its development gap[2] vis-à-vis the EU-25, by 4 percentage points in 1996-2000 and by 6 percentage points in 2000-2004, however if it continues to develop at such a pace it will only achieve 94% of the European average in 2013 instead of exceeding the average development level of the EU as set by Slovenia's Development Strategy. The comparison of real GDP growth rates leads to a similar conclusion. In 2000-2005, Slovenia's average economic growth exceeded the average growth in the EU-15 by 1.6 percentage points while calculations indicate that it should have exceeded it by almost double this rate if the set strategic objective is to be met. These results show that Slovenia should bring about some radical changes and reforms in order to achieve the goals set in Slovenia's Development Strategy and Reform Programme for Achieving the Lisbon Strategy Goals.

Macroeconomic stability provided good conditions for development. According to macroeconomic indicators (except inflation), Slovenia was ranked in the upper half of EU countries, scoring highest in public debt which was only lower in four countries (the Baltic states and Ireland). Inflation continued to decrease and converged with the Maastricht price stability criterion at the end of 2005. The adoption of the euro in 2007 will additionally stabilise the national macroeconomic environment. Slovenia's performance in the area of ensuring macroeconomic stability and employment was more favourable than the results regarding the competitiveness of the economy.

Economic growth also enabled a rise in employment. The employment rate is rising steadily and has been above the EU average since 2004. The unemployment rate is slightly below the EU average, as is Slovenia's long-term

2. Measured as GDP per capita in PPS.

unemployment, although the share of long-term unemployed is still high. The low employment rates of the elderly and high youth unemployment are a particular cause for concern. The situation in the labour market is still not satisfactory as regards employment although some progress has been made. Part-time employment represents the biggest unused potential where flexibility and employment could be enhanced.

Slovenia has recorded very positive developmental results in the areas of the modern welfare state and higher employment. Slovenia belongs to countries with favourable balances in the labour market and the social protection system. It has also performed relatively well in the areas of living standards, risk of poverty and income inequality. Regarding sustainable development, Slovenia scores around the EU average in terms of integration of environmental components into economic development. The biggest burdens for the environment are energy intensity and the high consumption of nitrate fertilisers per unit of agricultural land.

Table 2. Basic macroeconomic and social policy facts

- Stable growth rate of around 4% without excessive public or external deficits
- Inflation brought down below 2.5%; ready to enter euro-zone by 2007
- Moderate wage growth (below productivity increase) based on agreement between social partners
- Below EU-average in unemployment rate (SLO: 6.8%: EU: 8.7%), long-term unemployment rate (SLO: 3.4%: EU 4.7%), at-risk-of-poverty rate after transfers (SLO: 10%: EU: 15%), inequality by income quintile share ratio (SLO: 3.1; EU: 4.6)
- Measures foreseen to lower public expenditure share (by 2 percentage points until 2008), to eliminate structural public deficit (by 2010);
- Goals set to increase spending on R&D (3% GDP by 2010; now 1.6% with 60% financed by industry) and total spending on tertiary education (2% by 2010; now 1.3%)

Source: author's compilation

LISBON STRATEGY AND SLOVENIA

In a competitive environment, Slovenia has to cope with a double challenge. On the one hand, as a member of the developed world and sharing in European development values, it has to accept to an equal extent all of the findings and challenges that apply to the whole of the EU. On the other hand, it belongs to the less developed part of the EU, which means that it has to set for itself the goal of bringing its economy to the level of the more developed countries.

EU membership has placed Slovenia within a new institutional and development framework whereby the conditions and methods for achieving its national development have changed fundamentally. Slovenia as an EU member has to reconsider its strategic position within a broader global framework. It must identify its existing weaknesses and development opportunities and respond to them with an appropriate strategy. Slovenia must find ways to achieve its national goals in a sustainable way and in line with the common European regulations, policies and strategies, primarily the revised Lisbon Strategy.

In the transition period, Slovenia achieved stable economic growth while it avoided major macroeconomic imbalances and maintained comparatively good results in its social development. The chief drawbacks of the development seen so far include an overregulated economy, weak entrepreneurial development and the economy's low level of innovativeness, the modest efficiency of investment in research and development, a too rigid labour market and an insufficiently stimulative system of social transfers. In order for Slovenia to achieve the Lisbon Strategy objectives, it must therefore carry out structural reforms that will strengthen the competitiveness of its economy and raise its employment levels. Not least, an efficient administration that will allow appropriate monitoring of the development strategy and consultation with all relevant stakeholders is very important.

Table 3. Major milestones in the creation of the development strategies

Major milestones	**Consulted stakeholders**
• Slovenia's Development Strategy (June 2005, draft June 2004) • Framework for Economic and Social Reforms (October - November 2005) • Reform Programme for Achieving the Lisbon Strategy Goals - NRP (October 2005) • Office for Growth (January 2005) • New Social Agreement negotiations (since January 2006) • Partnership for Development between Parliamentary Parties (April 2006)	• Economic and Social Council (employers and employees) • Chamber of Commerce (active contribution to the programme) • Parliamentary Committees • Council for Sustainable Development • Workshops with NGOs of different social interests and regions • Public awareness campaign

Source: author's compilation

The Reform Programme for Achieving the Lisbon Strategy Goals is the government's response to these challenges, setting out measures aimed at stimulating the economy's restructuring and liberalising the economy even further, and measures aimed at boosting economic growth and employment. By the end of 2005, the NRP was publicly debated in the National Assembly and in the Economic and Social Council. In 2006 Slovenia will present its first progress report of the reform programme which will show if the reforms and measures are on the right track.

Approach to the Lisbon Strategy in Slovenia

Slovenia's Development Strategy

The answers to questions concerning Slovenian development and the Lisbon Strategy have been provided by Slovenia's Development Strategy, a document adopted by the Government of the Republic of Slovenia in June 2005, setting out the vision and priorities of Slovenia's development. At the forefront of the new strategy is the overall welfare of each individual. Slovenia's Development Strategy therefore focuses not only on economic issues but also on social, environmental, political, legal and cultural matters. Due to such a prioritisation of objectives, Slovenia's Development Strategy also serves as Slovenia's strategy for sustainable development. At the same time, it integrates the Lisbon goals within the national setting, bearing in mind Slovenia's specific development opportunities and setbacks.

Slovenia's Development Strategy was adopted on the basis of a broad consensus and comprehensive public debate that involved public stakeholders. In 2005, several public discussions on the draft of Slovenia's Development Strategy were organised within individual organisations (consultations held by the President of the Republic, the Sustainable Development Council, the Economic and Social Council, the Chamber of Crafts, the Chamber of Commerce and Industry, non-governmental and regional organisations).

The main objectives of Slovenia's Development Strategy are the following:

- to exceed the average level of the EU's economic development (measured as GDP per capita in PPP) and increase employment in line with the Lisbon Strategy goals in the next ten years;
- to improve the quality of living and the welfare of each individual, measured by the indicators of human development, health, social risks and social cohesion;

- to enforce the sustainability principle as the fundamental quality criterion in all areas of development, including the goal of sustained population growth; and
- to develop into a globally recognisable and renowned country through a characteristic development pattern, cultural identity and active engagement in the international community.

In order for Slovenia to achieve theses ambitious goals it needs to prepare and deliver sweeping structural reforms and change its existing development pattern. The new national development model therefore combines those positive characteristics of the European liberal economy models and the partner-state model that suits Slovenia in terms of its development possibilities and values. If Slovenia wants to improve its position and range among the most developed EU countries it needs to improve its global competitiveness substantially. This will, however, require more radical structural reforms and a change to the current development model. Slovenia's new political-economy vision is therefore geared towards a social market economy that will combine a more liberal market economy with an economically more efficient and flexible social-partner state.

Table 4. Vision of the new development paradigm

Current development model	Vision of the new development paradigm
Regulation and bureaucratisation of markets	Deregulation and liberalisation of markets
Restrictive entrepreneurial environment	Promoting the establishment and growth of enterprises
Relatively closed financial markets	Openness of financial markets and competition
State-corporatist ownership structure	Privatised economic sector with actual owners
Inadequate flexibility of labour market	Greater flexibility of labour market
Collective systems of social security	Individual needs and responsibilities
Corporativism of large social partners	Open and wide partnership cooperation
Bureaucratic-hierarchical system of public administration	Decentralisation and public private partnership
Emphasis on macroeconomic and social balance	Emphasis on sustainable development based on structural reforms and greater social dynamics

Source: Slovenia's Development Strategy, 2005

In order to achieve its goals, Slovenia's Development Strategy envisaged five development priority areas:

(i) The first development priority: a competitive economy and faster economic growth:
- foster entrepreneurial development and increase competitiveness;
- increase inflows of development-promoting domestic and foreign investment;
- support the economy's internationalisation;
- increase the competitiveness of services;
- successful participation in the exchange rate mechanism ERM II and adoption of the euro.

(ii) The second development priority: effective generation, two-way flow and application of the knowledge needed for economic development and quality jobs:
- raise economic efficiency and the level of investment in research and technological development;
- improve the quality of education and encourage lifelong learning.

(iii) The third development priority: an efficient and less costly state:
- increase the institutional competitiveness and efficiency of the state;
- restructure public finances to enhance their developmental role;
- ensure a better operation of the judicial system.

(iv) The fourth development priority: a modern social state and higher employment:
- improve labour market flexibility;
- modernise social protection systems;
- reduce social exclusion and poverty risk.

(v) The fifth development priority: integration of measures to achieve sustainable development:
- sustained population growth;
- balanced regional development;
- ensure optimal health conditions;
- improve spatial management;
- integrate environmental standards with sectoral policies and consumption patterns;
- develop the national identity and culture.

Framework for Economic and Social Reforms to increase welfare in Slovenia

After adoption of the strategy the government established the Committee for Reforms, a task force comprising some 200 experts from universities, businesses and the civil service, and commissioned it to put forth specific measures for implementation of Slovenia's Development Strategy in the areas of competition, higher economic growth and employment. The Committee's proposal, a Framework for Economic and Social Reforms, was then adopted in November. The document consists of 67 measures that cover mainly the first four priority areas of Slovenia's Development Strategy and it represents the government's position and view of negotiations on the social agreement which include all the main elements of the planned reforms.

The document underlined that Slovenia must establish a different relationship between the economic effectiveness of the market and the social responsibility of individuals and the partner-state. Slovenia must overcome economic and social paradigms that have been in effect since our gaining independence. The new developmental course must be conceived as a partnership agreement between social partners and all other spheres of Slovenian society and the state.

In order to achieve a breakthrough, it will be necessary to change the system parameters in such a way that they can improve the institutional development climate and stimulate individuals and companies towards more vigorous and better-quality activity.

A Framework for Economic and Social Reforms intends to influence the following most important mechanisms for an enhanced development climate:

- motivation for activity (transfers, remuneration of work);
- possibilities for activity (tax reform, promotion of entrepreneurship, and a more flexible labour market);
- incentives for productivity, productive use of knowledge and employment (taxes and technological subsidies);
- free economic initiative (privatisation, entrepreneurship and liberalisation);
- an efficient and less expensive state (restructuring of public finance + limitation of public spending + better regulation + public/private partnership + drawing EU funds + national projects + elimination of court backlogs);
- an efficient welfare state (transfers + health care + pension system).

The Reform Programme for Achieving the Lisbon Strategy Goals

The Reform Programme for Achieving the Lisbon Strategy Goals identifies, in line with Slovenia's Development Strategy, five development priorities: a competitive economy and faster growth; a knowledge-based society; an efficient state; a modern social state and higher employment; and sustainable development. These priorities are subdivided into a number of more concrete objectives.

The first development priority:
a competitive economy and faster economic growth
The proposed measures are intended to stimulate the economy's competitiveness and raise economic growth rates. By implementing the planned measures Slovenia aims to promote faster development of entrepreneurship and small and medium-sized enterprises, create a more business-friendly environment, and increase the inflows of development-supporting domestic and foreign investment. Public utilities and network industries should be made more efficient through measures that will liberalise these services and enhance their competitiveness. These include better utilisation of the communication infrastructure of all utilities, the market-oriented restructur-ing of the energy sector and competitive end-user energy supply, and competitive transport and logistical services. At the same time, these reforms must take place in a stable macroeconomic environment that will enable the adoption of the euro in 2007.

The second development priority:
effective generation, two-way flow and application of the knowledge needed for economic development and quality jobs
Through the proposed measures of the second priority the better applica-tion in Slovenia of domestic and foreign knowledge for the country's eco-nomic development should be achieved. In this way, the formation of a more innovative and technologically advanced economy and the opening of better quality jobs to a better educated and trained workforce, are encouraged.

The fundamental change in this sphere is the strengthening of cooperation between the research/academic sphere and the business sector. Joint work by experts and entrepreneurs in the development of new technological, organisational, design, marketing and other business solutions is the best way to greater innovation and the more rapid technological progress of the eco-nomy. Improvements in the functioning of universities and implementation of the “Bologna declaration” in our education are crucial.

The third development priority:
an efficient and less costly state

The fundamental change is an increase in the efficiency of the state. This will be achieved by raising standards of professionalism and transparency in the public administration, improving the quality of its services and strength-ening its consulting function. Slovenia plans to introduce a regulatory impact assessment system to screen regulations for their restrictive administrative and regulatory impact on competition and economic activity and take steps to remove these obstacles. The gap between the state's investment needs and traditional available sources of funding will be reduced by introducing public-private partnerships (PPP) to the provision, performing and financing of public services and investment in infrastructure.

The fourth development priority:
a modern social state and higher employment

The purpose of the proposed measures is to create an environment in which citizens will be able to find employment more rapidly and more easily and at the same time enjoy the necessary level of social protection. The main change is aimed at motivating unemployed people and recipients of social transfers to actively seek employment, develop their skills, and accept occasional and temporary jobs. In this respect, the state will assist them by amending the employment policy and introducing incentives for investment in education and training. At the same time, the changes made in the labour market will help employers adjust the extent of employment and thus encourage them to increase recruitment. Based on a better use of human resources, the planned set of measures will ensure faster economic growth and employment, without undermining the foundations of the social state.

The fifth development priority:
integration of measures to achieve sustainable development

This aim of this priority is to ensure that the measures adopted within the sectoral policies are not only directed to achieving their specific objectives but that they also contribute to Slovenia's sustainable development. Many measures in this area have a predominantly national character and are not directly linked to the implementation of the Lisbon Strategy. They will, however, by all means be aligned with Slovenia's Development Strategy. Among other things, they include measures to achieve sustainable popu-lation growth, to improve the population's health and to develop the national identity and culture. Measures here, among others, include spatial planning, culture, regional development and the environment.

Social dialogue

Public debate in Slovenia didn't finish with the adoption of Slovenia's Development Strategy. It's an ongoing process and among others, includes a debate over the reform programme for achieving Lisbon Strategy goals, negotiations on a new social agreement among social partners and an agreement between political parties with the adopted Partnership for Development.

Public debate held prior to drafting the Reform Programme for Achieving the Lisbon Strategy Goals

In 2005 several public discussions related to the Lisbon Strategy took place. Aside from that, the revised Lisbon Strategy was discussed at the regular sessions of the working bodies at the National Assembly and the Social Economic Council. In April, the Slovenian Chamber of Commerce and Industry organised a public debate during its third annual event called "Slovenian Business Week" and contributed concrete proposals and views on specific areas of the NRP. The key message was that the programme should focus on priority measures aimed at a swift and efficient increase in the competitiveness of Slovenia's business environment. During European Week in May, the Lisbon Strategy was also publicly debated in the National Assembly where representatives of the government, science, business sector and civil society presented their positions.

Even before drafting of the document began, the social partners were requested to formulate specific proposals concerning the programme. The Reform Programme for Achieving the Lisbon Strategy Goals was based on Slovenia's Development Strategy and departmental programmes and plans prepared by the responsible ministries. It also included the specific proposals and recommendations provided by the enterprise and research sectors and other stakeholders.

Consultations on the Reform Programme for Achieving the Lisbon Strategy Goals

The programme was due to be discussed at the beginning of September 2005. However, at that time the planned discussion did not take place due to a lack of time. The delay occurred because of the planned harmonisation of the reform programme with the proposals of the Reform Committee, which were still not finalised by then. Therefore, the first discussion of the Reform Committee's draft proposal was held at the Social Economic Council in October. At that meeting, the social partners made several proposals. These proposals are partly incorporated in the Reform Programme for Achieving the Lisbon Strategy Goals; however, those proposals to which trade unions explicitly objected were not included in the programme.

The social partners discussed the programme in December. Both employers and trade unions emphasised that they were not directly involved in preparing the document. The social partners underlined that all social partners should participate in the drafting of such a document in constructive social dialogue, or else it may be difficult to carry the tasks out. Therefore, the Social Economic Council did not adopt a joint view on the reform programme. It proposed to the government to equally involve the social partners in all further activities already in the initial stages of preparing strategies, policies and action plans.

As an important step forward, the social partners[3] are involved in the preparation of the legal changes required for the implementation of the planned reforms through social dialogue and negotiations on the new social agreement.

Partnership for Development

For the government it was also important to get nation-wide political support for the reforms. In April, six parliamentary parties and the representatives of the Hungarian and the Italian minorities signed the Partnership for Development Agreement, and thus committed themselves to fruitful collaboration in seeking the best responses to future challenges, and to reaching consensus in adopting and promoting reforms. The only party not to sign the agreement was the Liberal Democracy of Slovenia, the largest opposition party.

Process of implementation and monitoring of the Lisbon Strategy in Slovenia

Government Office for Growth

As a continuation of the Committee for Reforms, in January 2006, new Government Office for Growth was established. The Government Office for Growth is responsible for coordinating and monitoring implementation of Slovenia's Development Strategy and performs tasks related to economic and social reforms and development. The Government Office for Growth consists of the Department for Economic Reforms and Development and the Department for Social Reforms and Development.

3. Through the Social Economic Committee which is the central body for tripartite cooperation in Slovenia.

The main tasks of the new office are in the following areas:

- coordination of the comprehensive planning of Slovenia's development;
- coordination and monitoring of the implementation of Slovenia's Development Strategy and the economic and social reforms aimed at increasing the welfare of Slovenia ;
- expert assistance and collaboration with the ministries in drafting the acts, implementing regulations and other acts needed for the implementation of Slovenia's Development Strategy and reforms;
- coordination of the government ministries and offices in effecting the reforms in the economic and social areas;
- coordination of preparation of the development documents and setting up of institutional structures for implementing all the development documents incorporated in the National Development Plan of the Republic of Slovenia 2007-2013.

The Department for Economic Reforms and Development performs the tasks related to coordination of government ministries and offices in the pursuing of reforms in the economic area, in particular regarding the restructuring of public finances and the taxation system, promotion of competition, research activities, innovation and education, privatisation and financial sector development, implementation of the Lisbon Strategy and regulation of public utilities, coordination of the comprehensive planning of Slovenia's development as reflected in the contents, implementing structures and financial sources of the development plans incorporated in the National Development Plan 2007-2013, with an emphasis on the coordination of government reforms related to efficient use of EU funds.

The Department for Social Reforms and Development performs the tasks related to coordination of government ministries and offices in the pursuing of reforms in the social area, in particular regarding the measures aimed at establishing a more flexible labour market and higher employment, a more equitable and motivating system of social transfers, a more quality and efficient health care, as well as regarding the adjustments of the pension system and other changes aimed at meeting the social development goals of Slovenia's Development Strategy.

Monitoring

Efficient monitoring procedures are an essential part of the implementation. Monitoring of the reforms will actually be twofold:

- The Government Office for Growth will be preparing a regular implementation report which is based on a clear timetable for reforms.
- The Institute for Macroeconomic Development and Analysis will be preparing a yearly development report, based on around 70 indicators and measuring progress and lags in all areas of sustainable development, not only the Lisbon Strategy. The first report was already published in May 2006 and presents the development level and developmental trends in five development areas set out in Slovenia's Development Strategy and other documents. However, the 2006 report does not evaluate the implementation of the adopted two-year measures defined in the Slovenia's Development Strategy or any other measures defined in the Reform Programme for Achieving the Lisbon Strategy Goals or the Framework of Economic and Social Reforms.

According to the renewed Lisbon Process, all governments must present yearly progress reports. The Slovenian Government will present this report in mid-October, after the public debate with the National Assembly and social partners.

The report will show the current implementation of proposed measures and reforms and will be done on the basis of the legislation timetable compiled by the Government Office for Growth. Each ministry will also present a list of their adopted measures and there will be a possibility for trade unions and chambers of commerce to present their actions and views on implementation. Inside the progress report, the Reform Programme for Achieving the Lisbon Strategy Goals will also be further developed. Several of the measures that contribute significantly to growth and jobs and were adopted later and included in other strategic documents (as for example the "Framework for Economic and Social Reforms" and the national research and development programme) couldn't be included in the text. The outcome of the new social agreement negotiations should also be included.

Linking the reform programme with cohesion policy

The success of reforms cannot be guaranteed without appropriate financial backing from both the national and EU budget. The budget memorandum for 2006-2007 is the basic framework for preparation of the national budget for the next two years. It also defines the guidelines for the government's management of public finances and its conduct of economic and development policy. In realising the measures, the European cohesion policy (structural and cohesion funds) will also play a significant role. Therefore, several measures[4] have been proposed to improve Slovenia's administrative and absorption capacity for EU funds.

Cohesion policy in Slovenia will pursue its current course over the next programme period, focusing on the objectives of employment growth. The Lisbon-orientation of cohesion policy is reflected in the substantial financial resources allocated by Slovenia for the European Social Fund programmes and support of programmes promoting competitiveness and innovation. In the next programme period, Slovenia will elaborate these programmes and increase its expenditure on them. The reforms in the area of education and employment will provide the regulatory conditions for the efficient use of funds and the required increase in absorption capacity. Slovenia will extend the current group of programme implementers and connect them more closely with the needs of the business sector.

The second area where the Lisbon goals can be integrated with cohesion policy is by complementing measures to boost economic growth and employment with measures from various other areas that can produce catalytic effects. The Lisbon Strategy goals are thus also included in, for example, measures of the rural development programme (entrepreneurial revamping of rural areas, forming producer partnerships for a joint market presence and measures for the commercial activation of nature and cultural heritage).

Cohesion policy in Slovenia focuses on ensuring the conditions for economic growth and national competitiveness. Its task is to build development-conducive infrastructure and generate the required labour potential and a creative mindset in society.

CONCLUSIONS

The essence of the original and renewed Lisbon Strategy is structural reform. The main question on all governments' political agenda is not whether to reform

4. Measures: (i) designate one central body for the planning and harmonisation of national development policies; (ii) appoint one managing authority in the area of structural funds; the areas of the cohesion fund and environmental and transport infrastructure will be assigned one managing authority each; for cohesion policy as a whole (structural funds and Cohesion Fund) there will be one joint payment authority; (iii) the strategic governance of cohesion policy will be centralised in one body, which will be ensured by the preparation and monitoring of the National Strategic Reference Framework; and (iv) cohesion policy funds must be itemised under one budgetary heading.

or not, but when and how. Slovenia started with gradual transition to the market economy at the beginning of the 1990s and then pursued further structural reforms when entering the EU. As new challenges arise we have to tackle them with further changes and reforms.

The overloaded Lisbon Agenda and unclear objectives and priorities, in addition to the inactivity of some member states, have led to an unclear approach and lack of delivery. The renewed Lisbon 2005 tried to tackle the main drawbacks of the original Lisbon Strategy and the absence of structural reforms, with the improved focus on growth and jobs and higher degree of political ownership. Some questions still remain open: how to make coordination of reforms more effective or how and whether to set an improved benchmarking framework. The possibility to set their own national priorities and the introduction of NRPs was also very welcome, though comparison between programmes is quite difficult due to lack of uniformity.

From Slovenia's case we can draw the following conclusions:

Better focus and prioritisation: Focus on proper priorities is a key to the success of every development, also Slovenia's. The EU should allow its member states a certain flexibility and independence in defining priorities according to their national preferences and developmental goals. Slovenia also argued for an integrated approach that places emphasis on all three aspects of sustainable development - its economic, social and environmental components. The key to success is to act on good intentions and according to priorities needed, in spite of pressure from special interests and in spite of the political risks associated with a less cautious approach to reform.

Improved ownership: Lack of national ownership was one of the shortcomings of the original Lisbon Strategy. The renewed Lisbon Strategy has put the ownership and NRPs at the centre of the process. Preparation of strategic documents in Slovenia shows that involvement of stakeholders in the process of preparation of strategic documents and goals is crucial. For the best organisation of that involvement, special institutional arrangements need to be established. The tripartite body, the Social and Economic Council, where employers, employees and the government meet, was established several years ago. Another opportunity to talk with interested stakeholders is through the Council for Sustainable Development. The success of the national strategies cannot be guaranteed without the involvement and participation of interested stakeholders. Without national ownership for reforms, every government will have problems in implementation of the measures.

Better communication with citizens: Far more emphasis must be placed on engaging citizens with improved understanding of why reforms and the Lisbon Strategy are relevant to every person in every household in Slovenia. The government should undertake the reforms because of the improved welfare for all citizens in the long run, not only because of the obligations to the international community, for example the EU. Problems in obtaining political support for the reforms arise from the uneven distribution of costs and benefits of reforms across the economy and time. The long-term effects of reforms should be positive for all, though some ultimately lose in the short term. With this in mind it is important to present a cost-benefit analysis with all the positive and negative consequences of reforms over time.

Best use of the EU: The EU does not only mean a free and open internal market, as especially in the area of services the trade is not yet liberalised. The EU also means substantial financial support for the countries that are seeking to develop. Both at the time of EU accession and EU membership a country must make the best use of its support mechanism, pre-accession and structural and cohesion funds. Therefore it is essential to improve administrative and absorption capacity for EU funds. From the EU view, greater emphasis should be laid on promoting real convergence and economic cohesion of all member states. The selection of measures aimed at promoting growth, productivity and employment should therefore place special attention on those member states that lag behind most markedly, while the measures intended to increase economic cohesion should prioritise those that are also aimed at achieving the Lisbon goals. The implementation of the Lisbon Strategy through carefully selected measures can increase economic convergence and cohesion between old and new member states.

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REFORM PROGRAMMES IN HUNGARY: LISBON MATTERS?

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SUMMARY

The National (Lisbon) Reform Programme (NRP) is not the only mid-term economic programme in the EU member states, but one of the partially overlapping and potentially conflicting programmes, being different in their final objectives as well as in their financing. In Hungary, the priorities and planned measures of the NRP have been elaborated in a period where the catching-up process of the economy (through the National Strategic Reference Framework) and the stabilisation of some of the main macroeconomic indicators (through the Convergence Programme) enjoy priority. Until there are no conflicts between the NRP and the two other programmes, the NRP objectives will probably be consistently followed. Strong coordination between the programmes and broad public (professional) debate increases the chance of success for the NRP; nevertheless, in the present situation, logically, it is the other two programmes that enjoy priority - in other words, it is not Lisbon that matters first.

INTRODUCTION

“Programming” is one of the key words of European integration. In a general sense, it means that actions should not be initiated *ad hoc*, but as part of a process. The notion of programming is most well-known in the field of structural operations, where it has been one of the fundamental principles since 1988. However, as empirical evidence shows, programming is present in practically any field of European integration: long-term programmes (plans) are more or less regularly elaborated (on regional, national and/or supra-national level) in order to promote development in the field in question.

The National (Lisbon) Reform Programmes (NRPs) of the member states of the European Union (EU) fit well into this logic. In order to cope with the challenges of global competition, member states had to elaborate mid-term reform programmes, containing an analysis of their actual situation as well as a plan of measures to be taken in the fields concerned (macroeconomic issues, microeconomic issues, employment issues). Despite their novelty, it is very difficult to see them alone, because they contain a lot of aspects which are already present in other programmes or plans.

This is also true for the case of Hungary. In this paper, we will have an overview of the NRP of Hungary, bearing in mind its overlaps with two other programmes: the National Strategic Reference Framework (NSRF), designed for identifying the main development objectives and for the efficient use of (EU and national) financial resources, and the Convergence Programme (CP), the fulfilment of which is crucial for getting closer to the introduction of the euro. On the basis of the analysis, the reader can identify the main points where these programmes can be strengthened and also those where they can be opposed to each other.

The structure of the paper is the following: in the first part, we will discuss the connections between the above-mentioned three issues and the three related programmes. Then, we put the Lisbon Agenda, and the NRP into the foreground, and present the situation and the priorities in Hungary - according to the logic of the Integrated Guidelines for Growth and Jobs (IGs) - in the field of macroeconomic policy, microeconomics and employment issues. Finally, we discuss the NRP's success chances in Hungary, with special regard to its "environment" (institutional background as well as consistency vs. conflicts with other programmes or policy areas); these remarks can also be relevant for other new or future EU member states.

THREE ISSUES - THREE PROGRAMMES

Hungarian economic policy objectives are in many aspects closely linked to the conditions the country has to fulfil in order to comply with EU requirements. These links can be best summarised in the case of three issues:

- The main overall economic objective of the country is to catch up to the EU average development level. EU funds (the Structural Funds and the Cohesion Fund) play a very important role in this process, especially with regard to the increase of funds available from 2007 (on average, between 2007-2013,

- yearly around 3.2 billion euro will be available from these funds for Hun-gary; this is roughly three times the yearly average in the period 2004-2006).
- Hungary is committed to replacing its national currency by the euro as soon as the country is ready for it. To arrive at that point, Hungary has to make efforts in order to fulfil the Maastricht criteria.
- Hungary, like all the member states of the EU, is part of the Lisbon Process. The years 2005-2008 constitute the first mid-term period for introducing measures in order to realise progress in the fields of macroeconomic and microeconomic performance, as well as of employment.

The above three objectives overlap considerably in time; regarding the contents, there are overlaps (even synergies) which can help the realisation of the objectives, but in some aspects, these objectives - at least in the short term - also contradict each other. Most contradictions concern financing, and it is the task of the elaborated mid-term programmes to coordinate the policies in a way that enables them to make ends meet. The three programmes mentioned above are the following:

- National development objectives, priorities and the use of EU funds are integrated in the National Strategic Reference Framework (NSRF). Due to its nature, this programme has a solid financial background for the period 2007-2013[1]. The NSRF contains a detailed evaluation of the situation, the description of development objectives, priorities and measures, as well as an overall plan for financing these measures.
- The way towards fulfilling the Maastricht criteria is laid down in the Convergence Programme (CP). Due to the fact that Hungary did not reach the targets laid down in its CP, a new version of it will be prepared by September 2006. This new version will establish target values for the next years and an official target date (actually still 2010) for the introduction of the euro.
- The National (Lisbon) Reform Programme[2] outlines the main tasks related to the EU's Lisbon Strategy in Hungary in the period 2005-2008. This programme - similarly to the NSRF - also contains an evaluation of the present situation and mid-term prospects of the economy, and proposes measures in the fields already mentioned. The big difference from the NSRF is that the role of EU financing is minimal in Lisbon-related actions.

1. The first NSRF (generally referred to in Hungary as the National Development Plan) was prepared for the period 2004-2006.
2. In Hungarian, the programme is generally referred to as the Lisbon Action Programme (Lisszaboni Akcióprogram).

Overlaps between the programmes are relatively easy to identify. All the three programmes have to take into account the actual situation and the mid-term prospects of the economy. No wonder that the evaluation parts of the programmes are very similar to each other; in part, they have been produced by the same institutions and the same people. This, of course, helps the programmes to be coherent, and reduces the risks of containing contradictory evaluations and expectations.

However, there are important differences between the programmes. The CP is very different from the other two programmes: its objectives are very clear, and the measures it requires, generally reduce the room for manoeuvre of both other programmes (especially of the NRP, which has to be realised mainly from domestic financial resources, but also making co-financing potentially more difficult in the case of the NSRF). We have to note, anyway, that even the CP can have effects which strengthen both other programmes: e.g. if a public sector reform, including the reform of the territorial units (a concrete example of the reform plans of the new government) is successfully managed, it can also help to make the use of EU funds more efficient as well as enabling a change of the business environment pointing to the direction set in Lisbon.

This is, of course, easy to say, and much more difficult to reach in practice. As Hungary is still relatively at the beginning of all three programmes (in the case of the CP, the new version will probably also mean a new beginning, as can be seen from the government's reform plans), we cannot speak about clear results. Instead, in the following sections, we concentrate on our main topic - the NRP - and refer to possible synergies and conflicts with both other programmes. As a result, in the end we will be able to judge whether the Lisbon Process really plays an important role in the ongoing reforms in Hungary or it is more likely to be pushed into the background.

Macroeconomic outlook and measures

Macroeconomic stability and financial balance are fundamental for the achievement of the objectives set in the NRP.

According to the projections of the NRP, real GDP growth in Hungary is expected to remain around or above 4% in the next years. Exports are expected to increase more than twice as fast as GDP, thus they remain a driving force of growth. The optimism of the NRP in this respect can be justified by the experiences of the previous years (Hungarian exports grew 3 to 4 percentage points higher than external demand even in recession).

However, the NRP also considers the role of domestic use important for GDP growth. Consumption is also expected to grow dynamically, but at a slower pace (3-3.5% per year) than GDP; this means a positive change on the demand side structure of Hungarian GDP. Private consumption is expected to grow yearly by between 3% and 3.5%, while public consumption is estimated to stagnate throughout the period until 2008. Inflation is expected to decelerate gradually, and to be around 2% to 3% in 2008.

Table 1. GDP components in Hungary (change compared to previous year, in %)

	2005	**2006**	**2007**	**2008**
Household consumption	app. 3	app. 3.5	3-3.5	3-3.5
Public consumption	-1-0	-1-0	app. 0	0-1
Investments	6-8	6-8	6-8	6-8
Domestic use	**2-3**	**app. 4**	**4-4.5**	**4-4.5**
Export (goods and services)	9-11	10-12	9-11	8-10
Import (goods and services)	7-9	10-12	9-11	8-10
GDP	**3.5-4**	**app. 4**	**4-4.5**	**4-4.5**

Source: National Reform Programme for Growth and Employment (2005), p. 9.

The estimated yearly growth rate of investments is between 6% and 8% An important underlying factor of this dynamism is the continuously increasing presence of foreign capital; the attractiveness of the country for foreign investors has to be further increased. Firms with foreign capital play a very important role in the export performance of Hungary, as well.

Dynamic and sustainable growth is expected to have positive effects on employment. Until 2008, the NRP estimates a slow increase in the number of employees (see the data in Table 2). The unemployment rate is expected to decline again, and while the decrease is expected to be relatively small, it is calculated for slightly increasing activity rates, thus the real improvement can be better, if the figures come true.

Table 2. Employment and growth in Hungary (change in %)

	2005	2006	2007	2008
Number of employees	app. 0	0-1	0.5-1	0.5-1
Unemployment rate, %	6.5-7	6.3-6.8	6.2-6.4	6.1-6.3
Activity rate, %	60.5-61	app. 61	61-61.5	61.5-62
GDP	3.5-4	app. 4	4-4.5	4-4.5

Source: National Reform Programme for Growth and Employment (2005), p. 7.

Indicators concerning stability have been problematic for Hungary for a long time. In the case of price stability, the tendency of improvement is expected to continue: the inflation rate is estimated to continue to decelerate gradually, and to be around 2% to 3% in 2008. However, external factors[3] (e.g. high oil prices) as well as (at least partly) internal problems (e.g. doubts about the strength of the national currency) and measures (e.g. increasing tax rates) can endanger this path.

Table 3. Inflation (%)

	2004	2005	2006	2007	2008
annual average	6.8	3.5-4	app. 2	app. 3	2-3

Source: National Reform Programme for Growth and Employment (2005), p. 9.

Most of the above-mentioned potential internal dangers for the NRP are related to the high level of public deficit. As can be seen from the data in Table 4, due to the sharp divergence of the public deficit from the original plans, the 2004 version of the CP had to be modified in December 2005. The increase in general government net lending also led to a divergence in the gross debt figures.

3. Differences from basic assumptions of the CP (see Government of the Republic of Hungary, 2005, p. 38) can considerably modify the prospects. Apart from fully external factors, the HUF/EUR exchange rate (estimated to be at 252.5 in 2006 (annual average), but being around 280 at the beginning of July 2006) can cause important changes.

Table 4. General government net lending and general government gross debt (% of GDP) figures in the Convergence Programme, and actual values

	2004	2005	2006	2007	2008
General government net lending					
CP 2004	4.5	3.8	3.1	2.4	1.8
CP 2005	5.4	6.1	4.7	3.3	1.9
Difference	**0.9**	**2.3**	**1.6**	**0.9**	**0.1**
Actual value	5.4	6.1			
General government gross debt					
CP 2004	57.3	55.3	53.0	50.6	48.3
CP 2005	57.2	57.7	58.4	57.9	56.2
Difference	**-0.1**	**2.4**	**5.4**	**7.3**	**7.9**
Actual value	57.2	58.4			

Source: Government of the Republic of Hungary (2005), p. 36, Gazdasági és Közlekedési Minisztérium (2006), p. 6, Vida (2006), p. 144.

However, it is not by chance that the European Commission decided to request a new version of the CP from Hungary up till September 2006. The diverging trend of public deficit continued in 2006, and in the period January to June, the accumulated deficit has reached 72.7% of the (already modified) value planned for the whole year, which is (in the first six months of the year!) 5.6% of the planned yearly GDP (Pénzügyminisztérium, 2006, p.1). Analysts estimate the general government/debt ratio to be around 8-10% - this range covers figures about twice as much as the figure in the 2005 version of the CP. Of course, this also has a negative effect on the trend of the gross government debt/GDP ratio, and makes potential conflicts between the CP and the NRP more probable.

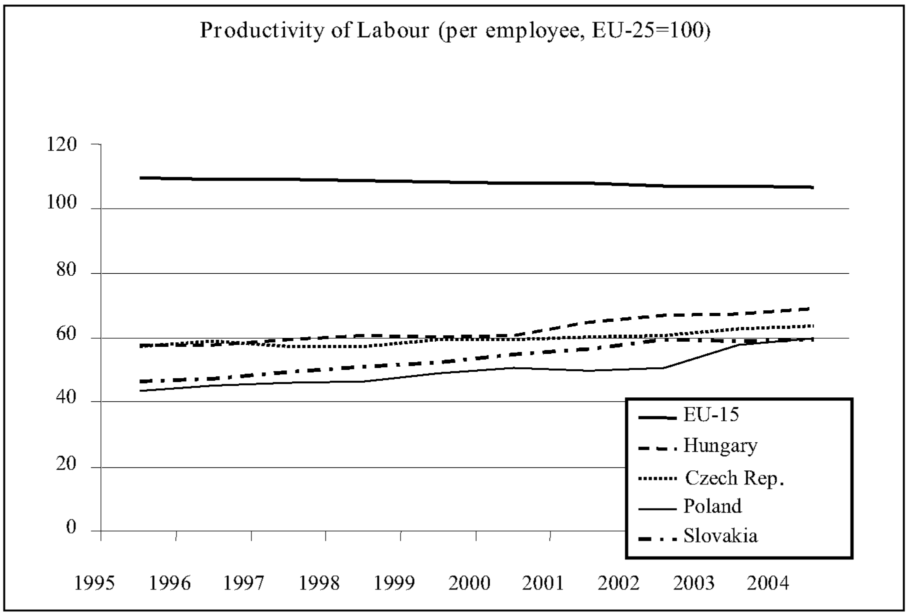
Priorities and measures listed in the NRP in the macroeconomic field are related to the above aspects, and try to contribute to the changes which can support macroeconomic stability. Structural changes are foreseen in order to secure economic stability (a pre-condition for sustainable growth). In order to reach long-term sustainability of the general government, inter-related steps are necessary: to continue the pension reform, to begin the reform of healthcare, to take measures targeted at the increase of employment, and to achieve a budgetary balance ensuring the appropriate rate of decrease of government debt.

Decentralisation of income is an important objective of fiscal policy. The most important instruments planned in this field are the reform of the tax regime and that of the contribution system. As increasing price stability creates a more predictable economic environment, in 2005 the government has proposed to contribute to greater predictability by launching the debate on a more predictable wage policy. This, in principle, can also contribute to the objective of making macroeconomic, structural and employment policies more coherent.

Microeconomic outlook and measures

The microeconomic situation and development is also crucial for Lisbon-related reforms. In Hungary, though there is an improving trend, and the country performs better than some of its Central European competitors (see Figure 1), productivity is still much lower than in the EU. This situation is due to a number of structural characteristics, to the problems in the availability of capital (both physical and human), the inequalities in the competitiveness of the business sector and the relatively low average efficiency of public services.

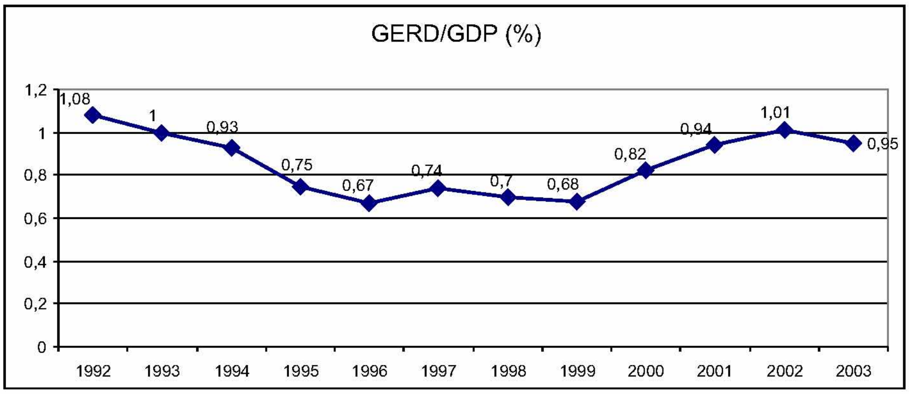
Figure 1. Productivity of labour in selected countries (per employee, EU-25=100)



Source: National Reform Programme for Growth and Employment (2005), p. 55.

Innovation expenditure in the business sector is low: innovation capabilities, as well as demand for innovation are limited. R&D expenditure approximates only 1% of GDP (instead of 3% defined among the Lisbon objectives), and there is no clear trend for the increase of this ratio (see Figure 2). The structure of R&D expenditure is also problematic: the share of the business sector is only about 30%. Concerning the information society, despite recent dynamic development, Hungary lags far behind the EU average.

Figure 2. Ratio of the Hungarian R&D expenditure to GDP (%)



Source: National Reform Programme for Growth and Employment (2005), p. 56.

The main objective of the NRP in this field is to improve competitiveness. In order to reach this objective, the NRP emphasises the following priorities:

- The spread of new (production) technologies.
- The training of flexible and adaptive labour.
- The development of intense R&D and innovation activities as well as operations creating ICT assets.
- The modern physical infrastructure serving the economy.

The measures foreseen include direct market developing steps (in order to extend competitiveness) encouraging the private sector to participate more actively in the R&D activity, and to facilitate the spread and utilisation of ICT. As in Hungary, the quality of physical capital is a crucial problem, the development of infrastructure is a basic pre-condition of improving competitiveness.

This has special importance in the case of transport infrastructure, but other segments (R&D, innovation infrastructure, broadband etc.), as well as the improvement of the business environment and the intensification of competition are also important.

Employment situation and measures

As has already been mentioned, the Hungarian labour market is characterised by a relatively low level of employment (56.8% in 2004), coupled with a low rate of unemployment (6.1% in 2004, slightly over 7% in 2005). The main challenge for labour market policy is the high rate of inactivity in the working-age population. In particular, older age groups and men show a low employment rate.

For highly skilled people, labour market prospects are similar or better, but for low-skilled people, these prospects are poorer than in other EU member states. There is a specific feature of the Hungarian labour market: the clear disadvantage of the Roma population. Disadvantages, however, also hit disabled people. Last, but not least, regional inequalities regarding employment and unemployment figures are significant (with employment rates about 62% and unemployment rates under 5% in Central Hungary and Western Transdanubia, and employment rates about 50% and unemployment rates above 7% in the poorer southern and eastern regions; regarding smaller units, disparities are much more important).

The NRP's prospects are based on the employment targets set in 2004. The data in Table 5 show clearly that regarding figures concerning employment - and unlike in the case of unemployment figures - Hungary is lagging behind the EU average. In recent years, there have been some slight positive changes regarding activity and employment, but even the mid-term targets are quite cautious. For 2010, the national objective for the employment rate is 63%, which is 6 percentage points more than the baseline (2003) data, but 4 percentage points less than the EU data in 2005, and 7 percentage points less than the EU objective set for 2010. Nevertheless, increasing activity and employment is a priority for the NRP, and the realisation of the mid-term plan figures would be a success.

Table 5. Employment targets set in 2004 (%)

Employment rate	EU average		EU objectives		Hungary		
	EU15 (2003)	EU25 (2003)	EU25 2005	EU25 2010	Baseline (2003)	National objective 2006	National objective 2010
Total	64.3	62.9	67	70	57.0	59	63
Women	56.0	55.0	57	60	50.9	53	57
Men	72.5	70.8	-	-	63.4	64	69
55+	41.7	40.2	-	50	29.0	33	37

Source: National Reform Programme for Growth and Employment (2005), p. 35.

In order to reach the employment targets, the NRP (in line with the Hungarian Employment Strategy re-drafted and adjusted to the period 2005-2008 in 2005):

- "supports the elaboration and introduction of programmes furthering the acquisition of basic skills and key competences in school education and training;
- ensures rapid adaptation to the ever changing labour market demands in professional training both from the aspect of content and organisation;
- strengthens the role of education and training systems in the fight against discrimination, in the creation of equal social opportunities and regional realignment;
- helps the general introduction of practice oriented courses reacting better to economic demands in higher education - as part of the Bologna Process - and improves the physical, personal and organisational conditions for an enhanced innovative participation of the sector" (National Reform Programme for Growth and Employment, 2005, pp. 5-6).

THE "ENVIRONMENT" AND THE CHANCES OF THE NRP

As has been said earlier, the Hungarian NRP is embedded into a set of programmes with partly overlapping priorities and time periods. As has also been said, it has - by its nature - a very close and organic connection to the NSRF. This connection makes the two programmes not simply overlapping (which, in itself, could also be a disadvantage, as it could be evaluated as a duplication of programmes), but - due to the difference in the time frames - potential divergences from NRP objectives (until 2008) can help actions initiated to correct the same aspects (if they are relevant) in the NSRF (lasting until 2013).

Thus, the NRP contributes to the exercise of "continuous planning"; different programmes are built on each other, and provide several reference points and benchmarks, in order to check their success. This is very important in a country - and this is valid not only for Hungary, but for all the new and future EU members from Central and Eastern Europe - where "planning" was something "suspicious", and thus quite pushed into the background in the 1990s, and it came into fashion again only by the end of that decade, due to the prospect and the pre-conditions for EU accession[4].

An interesting question - also related not especially to Hungary, but for all member states - is whether EU structural policy will be "Lisbonised" in the future (in the sense that Lisbon objectives will have an increasingly important place in structural operations, and thus they can menace traditional structural policy objectives). There can be such fears within the European Commission and in the member states, as well, but if NSRF priorities reflect the real needs of a country, it is not necessarily a problem for the given member state. Problems can arise if objectives and measures are not coordinated; in such a case, due to the very limited available EU financing, it will be very probably in the case of the NRP that measures and success can be endangered.

In the case of Hungary, such a situation seems to be unlikely at the moment. Although financial constraints are important, and they are expected to remain so for some time, the high degree of coordination between the NSRF and the NRP provides a solid background (potential changes in the public administration, however, can endanger this situation, but at the moment, there is no experience about how the reorganisation of ministries will affect this coordination in practice).

4. This was only partly a consequence of the rejection of (even the rhetorical) heritage of the centrally planned economic system; due to the very rapid changes (creation of fundamental market economy institutes, opening up of the economy, structural and geographical reorientation of trade, etc.), "strategies" in the early 1990s served mainly to manage these changes. Mid-term strategies (industrial policy concepts) appeared in Hungary again from the second half of the 1990s.

There has been broad public debate launched about the NSRF and the NRP in Hungary. The number of different professional and civil organisations that commented both programmes is very high, and this process contributes to the credibility of the programmes. The NRP, and Lisbon in general, however, is still in the background for the broad public, while the NSRF, and recently the CP (and the related restrictive measures) get much more attention.

Although the time span (2005-2008) coincides with the rapid increase of EU transfers, and, as a result of the elections in April 2006, there was no delay due to the national political cycle in this period[5], the fact that the time span also coincides with the need for budgetary consolidation, is very important for the success or failure of the NRP. We will see only later whether there will be only restrictive measures or real budgetary/public sector reform, and what role under these circumstances there can be for development, and especially for the Lisbon objectives.

What we can see already today is that while the Lisbon objectives - concretised for Hungary in the NRP - are important to the country, the primary objectives are the possible most efficient use of available development transfers (at programme level, this is the task of the NSRF), and the change towards a credible and successful stabilisation of the public finances (at programme level, this is the task of the CP). Until there are no conflicts between the NRP and the two other programmes, the NRP objectives will probably be consistently followed, but it is not the NRP that has the lead - to answer the question in the title, it is not Lisbon in the first place that really matters. As similar situations can occur in other countries in Central and Eastern Europe as well, the Hungarian experiences of the actual period can also be interesting for new and future EU members.

EPILOGUE FROM SIX MONTHS LATER

This paper was first prepared for a conference dealing with actual questions concerning the Lisbon agenda, organised in May 2006, then finalised in the first

5. It has to be remarked that even in the case of a political change as a result of the general elections, no substantial changes regarding the content of the NRP could be expected (Szemlér, 2006). Despite the victory of the governing coalition, as part of the restructuring of the public administration, there have been changes in the institutional structure (the National Development Office has been replaced by the National Development Agency) as well as in the person responsible for the NSRF.

days of July 2006. Since then, some important changes regarding actual macroeconomic data[6], and, as a consequence, the mid-term macroeconomic outlook in Hungary have taken place: the new version of the CP (mentioned in the text in the future tense) was prepared by the Government of the Republic of Hungary for 1 September 2006, and approved later on by the competent EU authorities. The new convergence programme outlines slower growth for the years 2007-2008, and it has consequences on consumption, investment, employment and unemployment figures, as well. As the amounts for co-financing are continuing to be assured according to the new figures, the potential conflict between the CP and the NSRF (mentioned in the paper) does not seem to threaten their use. On the other hand, the changes in the growth path have clear consequences for the realisation of the NRP. In line with the new version of the CP, the revised version of the NRP (approved by the Government of the Republic of Hungary on 11 October 2006) reflects the above changes, and the timetable of the plans to realise some important objectives (among them employment and unemployment rate targets) had to be modified. This new version of the NRP is expected to be evaluated by the European Commission in December 2006.

While the concrete figures and timetables have gone through changes[7], the main qualitative mid-term objectives of the three programmes remain unchanged. Of course, in the present situation (these lines are written at the end of November 2006) the CP has come even more to the foreground, while catching-up remains an important priority. As a consequence, it is (still) not Lisbon that matters first.

6. It has become clear that the actual budget deficit (general government net lending) figure will be considerably higher than the one foreseen in the 2005 version of the CP. Even with some corrective measures introduced in 2006, the deficit is now estimated to reach 10.1% of the GDP in 2006 (the figure in the 2005 version of the CP ("actual value" in Table 4 of this paper) was 6.1%).
7. Including the timetable for the introduction of the euro: contrary to earlier scenarios setting target dates (the last one, mentioned as "actual" in the point discussing the relations between the three programmes, being 2010), the new version of the CP does not establish a new target date. On the basis of the figures of the new CP, however, the introduction of the euro in Hungary is now very likely to happen years later than the previous target dates.

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DOES THE LISBON STRATEGY MATTER: THE CZECH EXPERIENCE

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SUMMARY

The Lisbon Strategy developed under the auspices of the old member states and had no relevance to the accession process as such. Nevertheless, between 2002 and 2004 this strategy became an inspiration for the creation of national political programmes. The paper analyses the role of the Lisbon Strategy in the preparation of the Czech Republic to enter the European Union - and within the first two years of the country's full EU membership. It tries to identify the place of the Lisbon Strategy among other external and internal factors influencing the Czech Republic's economic and social development, including the capacity of the country to apply the Open Method of Coordination (OMC), in various policy fields. The real impact of the OMC in governance at the national level has been dramatically below its potential influence. In the new member states there is an urgent need to solve the discrepancy between the enormous public tasks and insufficient social, economic and administrative implementation capacities.

THE LISBON STRATEGY AS ONE OF THE FACTORS OF POST-COMMUNIST SOCIETAL TRANSFORMATION

In general, the European Union has played an active role in supporting and mediating modernisation in the new member states. Its positive influence can be identified in various fields. Well worth noting is the EU's assistance to institution and capacity building (e.g. PHARE projects), specifically designed modernisation efforts - a reform of public administration, regulatory reform, training of professionals (including civil servants), implementation of new methods of public management and administration, collaboration in the field of education, etc.

The history of systematic preparation of the post-communist candidate countries[1] for accession started with the launching of the Copenhagen criteria of accession (1993). These criteria have been designed more as a technical (economic and political) instrument from above than as an appropriate tool to steer peoples' living conditions in the candidate countries. Legal, economic and political issues prevailed.

First, candidate countries were asked to reform their national economies to be able to compete - and be compatible - with market economies of the old member states.

They had to build robust and reliable institutions of political democracy. They were asked to adjust their legal and administrative systems to the *acquis communautaire*. These tasks were (at least in the formation of the corresponding institutional framework) successfully fulfilled by the beginning of the 21st century. The fast progress in both economic and political adjustment to these requirements has been astonishing and deserves high evaluation.

On the other hand, genuine social goals were at the very bottom of the then list of priorities - limited to the preservation of individual human rights and the building of a loosely defined framework for social policy making. The containment or reduction of poverty and income inequalities, labour rights, a living wage and the alleviation of the fate of the marginalised groups, in other words, the fight against social exclusion, did not form an integral part of the Copenhagen criteria reform agendas. Most national social policies in the candidate countries in the beginning and the middle of the 1990s "consisted of the withdrawal of the state and the improvement of efficiency by the privatisation and marketisation of the services. These steps were to be completed by the reduction of the coverage and standards of all social benefits except social assistance, a well-targeted safety net for the poor" (Ferge, 2001).

The European Council launched the economic nucleus of the Lisbon Strategy in March 2000, and enriched it by its social dimension in Nice in December 2000. Very soon, the environmental dimension followed suit (Gothenburg Summit, June 2001). It was the stream of new political initiatives, stressing the importance of human resources, quality of life, social cohesion, in short, the "social fabric" of contemporary societies. The Czech Republic was asked to

1. Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

take part in the Lisbon Strategy negotiations only after the 2002 Barcelona Summit, when the preparation of the new member states to enter the EU - until then organised within the logic of the Copenhagen criteria - had just been completed. Fully fledged participation in the Lisbon Strategy started only with the country's accession to the EU in May 2004. Thus, social policy moved to the top of the EU political agenda of enlargement as late as one decade after setting up the Copenhagen criteria of accession.

Thus the Lisbon Strategy, developed under the auspices of the old member states, had no relevance to the accession process as such. Nevertheless, between 2002 and 2004 it became an inspiration for the creation of national political programmes. A new coalition government under Prime Minister Vladimír Špidla, leader of the Czech Social Democratic Party, came to power in July 2002. The coalition agreement and the new government's declaration comprised all the Lisbon Strategy goals. The Office of the Government's Department for European Integration[2], which had existed since 1998, was re-named the Department for EU Issues, in May 2003[3]. Along with the Inter-ministerial Commission for the Implementation of the Lisbon Strategy Goals[4] it supervises its implementation in the Czech Republic.

The original Lisbon Strategy was amended by its environmental dimension at the Gothenburg Summit in 2001. It conceptualised sustainable development as consisting of three pillars: economic, social and environmental. A Strategy of Sustainable Development was approved by the Czech government in 2004 (Strategie udržitelného rozvoje, 2004). The New European Commission redefined the Lisbon Strategy by prioritising economic growth, education, research and development, and fighting unemployment in 2005. In the meantime, Vladimír Špidla resigned as Prime Minister. His successor, Stanislav Gross, installed a new deputy prime minister for the economy, Martin Jahn. One of his tasks was to prepare a Strategy of Economic Growth (Strategie hospodářského růstu, 2005) and a National Lisbon Programme 2005-2008[5] (Office of the Government of the Czech Republic, 2005). Both documents were approved by the government in 2005 and submitted to the European Commission. Typically, the Czech National Lisbon Programme 2005-2008 consists of three parts: macroeconomic (notably continuing public finances reform), microeconomic (measures to strengthen and increase competitiveness)

2. Odbor pro evropskou integraci.
3. Odbor pro záležitosti EU.
4. Meziresortni komise Úřadu vlády ČR pro naplňováni cilů Lisabonské strategie.
5. Národní Lisabonský program 2005-2008.

and employment (labour market flexibility, inclusion in the labour market, and education). Thus the 2005 programmatic shift at European Union level found a favourable response in the Czech Republic.

The Czech scholarly community has discussed the nature and implementation potential of the Lisbon Strategy in general and in the Czech Republic in particular. The whole spectrum of positions has occurred. Some economists challenged the inclusion of social cohesion, environmental goals and the sustainable development concept as such. Even the scholars, who in principle agreed with the structure of the Lisbon Strategy goals and the usefulness of such a programmatic effort, have found it quite difficult to see it as a realistic document, namely its ambitious part that endeavours to make the EU *"the most competitive and dynamic knowledge-based economy in the world by 2010"*.

By the same token, neither the governments of the candidate countries nor the EU institutions were able to prevent the rent-seeking institutions of the global financial market, inspired by the influential ideology of the Washington Consensus and the corresponding policies of the International Monetary Fund and the World Bank in the 1990s, from seizing the opportunity and trying to implement radical changes in various fields of social policy. The World Bank was indeed seen as the major agenda-setting actor in economic and social policy making in the region, prioritising narrowly defined economic rationing using the regulatory power of the market over broader societal aims achieved by the balanced influence of the state, market and civic sector (Potůček, 1999; Orenstein and Haas, 2002; Ferge, 2001)[6].

The Open Method of Coordination (OMC)

In terms of technique and procedure, the Czech Republic has had no problems with the application of the OMC. It was used several times for the preparation of National Employment Action Plans; it was applied in the process of the preparation of the first National Action Plan on Social Inclusion, etc. The serious problem lies not with formal application but with the administrative and political context in which it is being applied. To cut a long story short:

- Czech public administration does not possess specific organisational structures that would have the capacity to deal with strategic issues;

6. The most important example is the reform of the national old age pension system, which opened doors for private insurance funds by introducing compulsory private (co-)insurance.

- Czech civil servants are not trained and experienced in dealing with strategic issues in their professional life;
- Czech politicians in general do not appreciate the importance of strategic thinking and decision making for the realisation of their political missions.

As a result, the real impact of OMC in governance at the national level has been dramatically below its potential influence. In other words, operative and tactical tasks, short-term interests, lack of time and professional blindness severely limit the effects of the OMC's application. At the same time, clear positive effects can be recognised in raising the level of general awareness of civil servants about EU problems.

Genuine national programmatic initiative

An interesting example of an original national initiative was the elaboration of *The Social Doctrine of the Czech Republic* (Sociální doktrína České republiky, 2002). Its aim was to build a broad national consensus concerning the future orientation, goals, priorities and corresponding instruments of Czech social policy. Five preparatory conferences in 1998-2000 were a "joint venture" of the academic community concentrated around the non-profit Socioklub, the Ministry of Labour and Social Affairs and the Senate (the upper house of the Czech Parliament). The document, elaborated by a group of experts from various fields and with various political affiliations, got mentioned in the coalition agreement statement of political parties in power in July 2002, as the starting point for the further development of government social policy and its priorities and approaches for the period till 2006. Nevertheless, until its resignation in 2004, the government failed to find sufficient capacity and motivation for consequent steps: real social policy decisions mostly stemmed from either urgent problems or strong demands articulated by various pressure groups.

CHANGING PUBLIC POLICIES

What has been the specific impact of this interplay of various influences on specific policy fields in the Czech Republic?

Social inclusion

The European Commission has asked all the candidate countries' governments to elaborate Joint Inclusion Memoranda in order to identify key problems and policy measures to combat poverty and social exclusion in 2002. The agenda of social inclusion was formally set up with the preparation and approval of this document by the representatives of the European Commission and the Czech Government in 2004 (Ministry of Labour and Social Affairs, 2004). The preparation and approval of the National Action Plan of Social Inclusion 2004-2006 followed suit (Ministry of Labour and Social Affairs, 2005). The document sums up other valid and prepared policies, action plans, strategies, programmes and governmental decrees that have some relevance to the issue of social inclusion. The soft spot of the document is the lack of explicit goals, a poorly defined responsibility for implementation, and missing links to the budgetary process. Significantly, the Ministry of Finance did not participate in the preparation of this document. (Atkinson et al., 2005; Potůček, 2005).

Active and passive labour market policies

The Employment Act came into force as of the start of 1991. The state employment policy, in accordance with this Act, is towards achieving a balance between labour supply and demand, towards the productive utilisation of the workforce resources, and towards securing the rights of citizens to employment. This is interpreted as the right of those who want and are able to work and are actually engaged in the process of seeking employment. These people have the right to have work brokered for them in suitable positions, the right to re-qualification as needed for such work, and to material security before starting a job and in the event of losing employment. By 1990 a network of regional Labour Offices was created to administrate state employment policy in the regions.

The relevance of the EU as a partner in employment policy making became visible only with the innovation of domestic employment policy making, which started at the end of the 1990s: the annual elaboration and implementation of the National Employment Action Plans, guided by the European Employment Strategy (Ministerstvo práce a sociálních věcí, 2004). Inspired by and in consultation with the Commission and applying various schemes proved to be effective in other countries, this EU activity represents an added value - even if the country, along with the other member states, still faces an unacceptably high level of unemployment. The state of preparation and implementation of the national documents' standards is not advanced, either: poorly defined goals and responsibilities, lack of programme evaluation, poor inter-sectoral coordination, and missing links to budgetary resources leave enough room for further improvements (Jabůrková and Mátl, 2006).

Family policy

The EU green paper on "Confronting demographic change: a new solidarity between the generations" is very topical for the Czech Republic, which has one of the lowest birth rates in Europe and a rapidly ageing population[7]. The Minister of Labour and Social Affairs, Zdeněk Škromach, welcomed it at the conference "Confronting demographic change: a new solidarity between the generations" (Brussels, 11-12 July 2005), and pointed out that the Czech government sees the family as a legitimate subject of public interest. The contribution of the Czech Republic to this document was elaborated by the Ministry of Labour and Social Affairs and the Ministry of Health, submitted to public discussion, and finally approved by the Committee for the EU[8] and passed to the European Commission by the end of 2005. The upper chamber of the Czech Parliament, the Senate, organised a public hearing on the EU green paper on demographic change on 29 June 2005, and passed a resolution on 6 October 2005. Being composed mostly of right-wing political parties, it has condemned the open coordination and all other non-legislative procedures applied by the EU in the member states, and rejected any intervention of the state into the privacy of family life (such as division of household chores). The Green Paper positively influenced the process of preparation and approval of The Conception of Family Policy that was articulated and approved in the Czech Republic as late as in 2005 (Ministerstvo práce a sociální politiky, 2005). Domestic factors were decisive, though: a persistent very low fertility rate (at about 1.2), and ideological orientation of policy makers (Christian and Social Democrats in power as governmental coalition partners).

Pension reform

After minor changes in old age pension legislation in the early 1990s, there was a significant legislative change in the framework of the compulsory structure of social insurance with the passing of a new law on old-age pensions in 1995. An increase in the statutory retirement age limit was approved to be introduced incrementally up until 2007. The statutory retirement age for women, originally 53-57 was raised to 57-61 (the actual limit depends on the number of children), while for men it increased from 60 to 62. The law on base pension insurance

7. The national programme on preparation for ageing for 2003-2007 was approved by the Czech government as soon as 15 May 2002 (Ministerstvo práce a sociálni politiky, 2002).
8. Výbor pro EU. It is the main coordinating body of the Czech public administration toward the EU. Its Chairman is the Minister of Foreign Affairs.

conceives the old-age pension as of two-components made up of a fixed amount paid to all and one that is dependent on the number of years worked and the working income received. The law is built on the principle of substantial redistribution of accumulated finances towards persons with a lower level of earnings. Old-age pensions for persons with higher working incomes are affected by a regressively acting calculation formula.

Since 1995 there has been a public discussion about the reform of the whole concept of the old-age pension system. It was initiated by experts from international financial institutions, namely the International Monetary Fund and the World Bank, who strongly recommended that the country opt for compulsory private co-insurance. This new type of old-age insurance would complement the pay-as-you-go public scheme that would gradually lose its importance in the total amount of redistributed resources. It was argued that this change would be inevitable due to demographic trends (ageing of the population) and the demand for investment in the national economy that would be satisfied by the newly established and privately run for-profit pension funds. In contrast to Poland, Hungary, and recently also Slovakia, who had introduced this model, the Czech Republic resisted the pressure. There were two main factors that could explain this significant difference:

- The country was not in as deep a fiscal crisis as other Central and Eastern European countries and was less dependent on loans provided by these organisations.
- There were strong political opponents of this idea, namely the consecutive Social Democrat-led governments and the trade unions that stressed the risks of such a reform due to the fragility of financial markets and institutions and the huge demand for additional financial inputs over a couple of decades within introducing such a reform.

One of the stimuli for the establishment and operation of the cross-party task force for pension reform in 2004-2005 was, once again, the EU green paper on "Confronting demographic change: a new solidarity between the generations". The government has established this force in order to simulate the consequences of alternative pension reform options and thus contribute to rational discussion of the representatives of different ideological views.

Social policy agenda

No comprehensive national policy inspired by the new EU Social Agenda launched in the beginning of 2005 has been developed. Nevertheless, there is apparent piecemeal progress on a majority of its issues:

- The establishment of the above-mentioned cross-party task force for pension reform.
- The new Labour Code was prepared and approved by Parliament in 2006.
- The tripartite body has matured, gained legitimacy, and due to its relatively smooth functioning there have been minimal strikes and other forms of open protest.
- The issue of gender equality has been discussed and new approaches were taken to close the gender gap in job opportunities, wages and other living conditions.
- The promotion of families (especially those with children), and young people (potential parents) became the core issue of a new Conception of Family Policy (Ministerstvo práce a sociální politiky, 2005).
- There were other partial agendas (such as the broad issue of social inclusion, etc.) considered and realised as mentioned through this paper.

European economic and monetary union

The Czech authorities (government, Ministry of Finance and the Czech National Bank) have officially declared their intent to join the euro zone by 2010. In view of positive economic developments, this plan seems to be realistic. Nevertheless, debate (namely among social scientists) is still on whether this move will be productive as some nationally sensitive and effective economic and social policy instruments will be lost on a country which has not yet fully recovered from the legacy of its Communist past.

Enlargement - free movement of labour and goods, socio-political chapters

The Czech authorities are generally well aware of the positive impact of implementation of the core European Union principles and goals on the future socio-economic development of the country, a country extremely dependent on foreign trade and foreign investment, technology and experience, and neighboured exclusively by EU member states. Thus the Czech government often encounters delays in the full application of these principles by some old member states, typically in the free movement of labour. This is a paradoxical situation as the Czech Republic has for several years been a net importer of labour from the other member states. Even Czech politicians who are genuine supporters of Europeanisation have found it difficult to sell this paradox at home.

CONCLUSIONS

The EU's role in shaping certain domestic policy fields, namely social policy, should not be overestimated; the obvious discrepancy between the Copenhagen criteria of accession, covering a very limited part of the social welfare agenda and installed in 1993, and the Lisbon Strategy, laid out as an explicit and balanced public policy programme for the candidate countries as late as in 2002 and politically and administratively executed only since 2004, opened a considerable space for other, more active and influential international actors, namely the World Bank and International Monetary Fund led by the Washington Consensus' neo-liberal ideology of the 1990s (Potůček, 2004). This institutional weakness created a sharp socio-political tension: The new member states entered the European Union with their health, social, and employment policies not developed enough to cope with the legitimate demands of this strategic policy document. There is an urgent need to solve the discrepancy between the enormous public tasks of high employment, capacity building in health and social services, alleviation of poverty, and strengthening social cohesion in the new member states, and their insufficient social, economic, and administrative implementation capacities.

The situation has been slowly changing only from the beginning of this century: the European Union has helped with pushing the social policy issues higher up the political agenda ladder, with institution building, and the transfer of skills and money from the old member states. Nevertheless, the Open Method of Coordination proved to be too weak an instrument in this respect.

National initiatives within the new member states would be an added value to this EU-centred effort. A programmatic document called *The Social Doctrine of the Czech Republic*, developed by a group of scholars for this purpose in the Czech Republic, might become an inspiration for other countries, even if it failed to directly influence the social policy making in the country (Sociální doktrína České republiky, 2002).

All in all, only the institutions of the enlarged EU have the potential to become the main - if not the only - institutional umbrella against the pressures of economic globalisation in preventing further widening of the gap between those who work and those who are unemployed, those who have and those who have not, those included and those excluded in the member states.

The social dimension of the Lisbon Strategy is the - even if somewhat virtual - blueprint for the future.

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THE LISBON AGENDA AND THE RELOCATION OF ECONOMIC ACTIVITIES ABROAD: SERVICES AND THE LABOUR MARKET

Neven Mimica

THE LISBON AGENDA AND THE RELOCATION OF ECONOMIC ACTIVITIES ABROAD: SERVICES AND THE LABOUR MARKET

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SUMMARY[1]

The article approaches the Lisbon Strategy by viewing it as a tool for addressing economic hardships produced by relocation of economic activities. The rising incidence of relocation of resources abroad by production and service companies - often from more developed countries to countries with a more favourable cost structure in Central, Eastern and South-Eastern Europe - has become a major political issue especially in Western Europe, and notably in countries with high unemployment. Relocation may however, at least temporarily, lead to considerable individual and social hardship and suffering. It is therefore essential to properly assist those affected by this process. In this regard, policies to promote and encourage employability have shown themselves to be more efficient than those serving merely to protect employment.

The answer should be to engage in bold structural reform in all sectors including labour, products, services and education, so as to increase competition and thereby competitiveness and put countries in a position to attract foreign investment and become as much recipients as "senders" of relocation.

The social and economic consequences of relocation are to be brought in a close connection with the Lisbon Agenda. Success in implementing the Lisbon goals seems to be crucial for addressing and rectifying the negative impacts of relocation on outsourcing economies. More jobs and more growth, if achieved

1. The article is based on my paper "Relocation of economic activities abroad and European economic development" prepared as a report to the Parliamentary Assembly of the Council of Europe.

under the Lisbon Agenda, would definitely ease social and political hardships that the transfer of production would bring to a certain country or region.

INTRODUCTION AND BACKGROUND

The notion of relocation as such is a very wide one that generally describes the practice of firms to subcontract business functions to outside suppliers. In practice, this can take many forms, and research papers and media publications refer to different types in their arguments. The UNCTAD World Investment Report 2004 provides a helpful structure for classifying different outsourcing and offshoring activities. There are two main distinctions to make in order to define outsourcing: whether a good or service is produced inside or outside a company; or whether it is produced inside or outside a country. Outsourcing takes place if the production of a good or service is contracted out to another company, regardless as to whether this company is domestic or foreign.

Looking at the international dimension, outsourcing is often used synonymously with offshoring and refers to the practice of importing goods or services for the production process from outside the home country. This can take two forms. For “intra-firm offshoring” or “captive offshoring”, firms establish affiliates abroad but are essentially still performing the function in-house. A prominent example is DHL's decision to relocate its data centre from the United Kingdom to Prague to track shipments, customer queries and billing activities (You're Speaking to Prague, 2003). The term offshore outsourcing or international outsourcing, to the contrary, is used when stages of the production process are performed abroad and by third parties.

The vehicle for captive offshoring is mainly foreign direct investment (FDI), which is defined as “an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)” (UNCTAD, 2004).

AN UPWARD RELOCATION TREND IN THE SERVICES SECTOR

Whereas the phenomenon of international outsourcing in the manufacturing sector is not new, it recently also arose in the services sector and for service activities within manufacturing. With the expansion of information and communication technologies, it is now possible to outsource business processes such as customer service, telemarketing, and document management but also financial services and IT services such as software development. The number of services that require geographical proximity (so called face-to-face services) might well shrink even further.

The recent withdrawal for revision within the EU of the so-called Bolkestein draft directive on "services in the internal market" reflects different, even conflicting, views on the further liberalisation of international trade in services. Especially to the new EU member states, the withdrawal signifies the abandonment of one of the basic principles of the EU's Internal Market, that is, the free movement of services. To some of the older member states, by contrast, it means a similar abandonment of social and economic rights and guarantees hard fought for and achieved over decades. In view of this, there is a clear need to observe a difficult middle road between ensuring regular provision of services in public utilities and avoiding any semblance of social dumping in the service sector.

The fairly recent phenomenon of service outsourcing is the main driver of renewed political attention to the issue. Whereas traditional outsourcing in the manufacturing sector affected low-skilled, blue collar workers, service outsourcing is seen as a threat to well paid, white collar jobs. This has considerably increased lobbying efforts. A recent study in the US has shown that among individuals with an annual income above $100,000, the percentage of those actively supporting free trade slipped from 57% to 28% between 1999 and 2004 (Amiti and Wei, 2004).

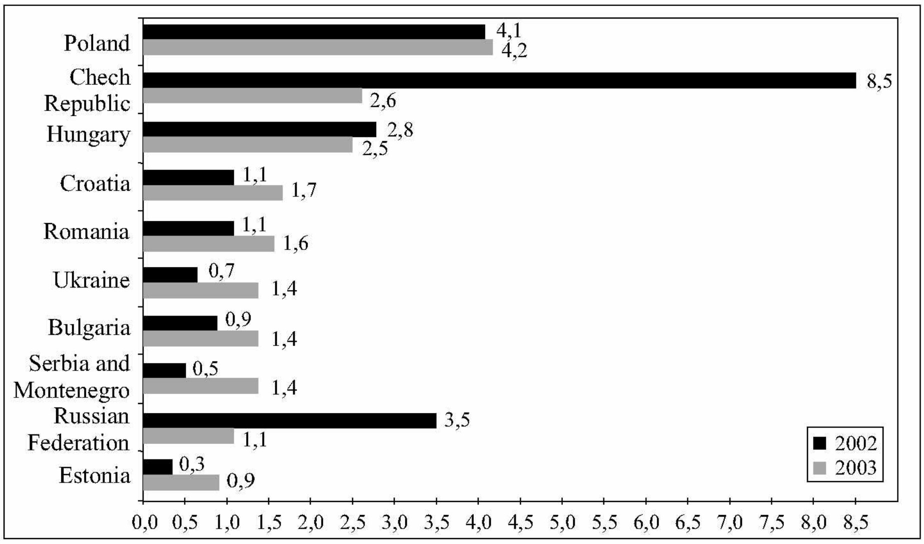
Having attracted manufacturing relocation and investments in the early 1990s, CSEE countries are increasingly successful in attracting service sector contracts and investments. They offer a large pool of college graduates with technical and language skills, especially in German and English that make them attractive locations for service and business process outsourcing. The Czech Republic is so far the most prominent host country for service sector outsourcing and the number of call centres is set to rise about 70% to more than 500 by 2007 (Central Europe Leads Growth in Call Centres, 2003). CSEE countries increasingly compete for contracts in the IT sector with India and benefit from their geographical and cultural closeness to Western Europe.

A survey found that nearly half of European companies were planning to move more services offshore. Among these, UK companies accounted for 61% of the total of jobs moved, followed by Germany and the Benelux countries with 14%

each (A Loss of Jobs or a Gain in Profits, 2004). Compared to US firms, most European firms have until now been reluctant to outsource business processing and IT.

In Germany, manufacturing outsourcing accounts for 50% of total outsourcing and, apart from a few prominent examples (Deutsche Bank's decision in 2002 to outsource a large part of its European IT operations to IBM in a contract worth about $2.5 billion over its 10-year lifespan), firms are hesitant to engage in business process outsourcing (When Push Comes to Shove, 2004). In Italy, outsourcing is relatively low, due to the structure of its industry with relatively few large corporations and due to strong political and cultural constraints. Nordic telecommunication companies are slowly moving service centres to the Baltics. In Spain, there is a growing trend for outsourcing mainly to Latin America and northern Africa. A major constraint for outsourcing in the service and communications sector is a natural one, that is, language skills. German and English are widely spoken in Eastern Europe where it is not surprising to find a rise in service activities relocated from German- and English-speaking source countries.

Figure 1. Top ten recipients of FDI inflows in 2002 and 2003
(in billions of dollars)



** Ranked on the basis of the magnitude of 2003 FDI inflows.*
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

The size of international service outsourcing and offshoring is difficult to establish. From an FDI point of view, service sector investments are increasing more rapidly than FDI in other sectors. Between 2002 and 2003, the share of service sector projects in the total number of related FDI projects rose from 37% to 51% for all developing and transition countries. Their share in the number of jobs created by such projects reached 57%. India's exports of software and IT-driven services, for example, grew from less than $0.5 billion in the early 1990s to around $12 billion in 2003-2004 (UNCTAD, 2004). Table 1 shows the major recipients of FDI for services projects in CSEE. The Russian Federation, Hungary, Poland, and the Czech Republic are the largest recipients each with between 11% and 15% of total service FDI.

Emphasis should be given to the increasing market share of services in the economies of OECD countries, as well as to the potential for such activities to be outsourced to low-cost countries. Whereas the share of agriculture has decreased over the last 20 years in the OECD area and that of industry is also falling in rich countries (while increasing slowly in poor countries), the share of services is rising in all three categories of countries - that is, the rich, the developing countries and those in transition, and poor countries. Services now represent two thirds of global economic production: 70% in rich countries, 50% in medium-income and 44% in low-income countries. The general trend is thus towards an extension of the service sector throughout the world. Productivity in the service sector is therefore a key issue when it comes to raising overall competitiveness in a given country. Another trend is towards jobs requiring higher skills levels. The reason for this is less the development of trade than technological change as such.

Furthermore, it becomes clear that countries that take the greatest recourse to outsourcing - the United States and the United Kingdom - are also the prime suppliers of outsourced services. This being said, there are many activities such as catering, personal services, hairdressing etc., that can never be done at a distance.

Table 1. Largest CSEE recipients of services FDI projects, 2002-2003
(Number of projects and percentage)

Country	Number of projects			
	Total	Greenfield FDI[a]	Cross-border M&As	Share (per cent)
Russian Federation	126	81	45	15
Hungary	121	72	49	14
Poland	116	37	79	14
Czech Republic	95	31	64	11
Romania	77	57	20	9
Bulgaria	53	31	22	6
Slovakia	43	18	25	5
Serbia and Montenegro	31	21	10	4
Total	852	439	413	100

Source: UNCTAD, based on information provided by OCO Consulting and UNCTAD, cross-border M&A database.
[a] Based on projects monitored in five key services areas: financial services, telecommunications services, headquarters and distribution centres, R&D and shared services/call centres.

IMPACTS

Impacts on economic welfare and labour markets of source countries

International trade is widely accepted to have beneficial effects on aggregate economic welfare through the exploitation of gains from trade. However, when it comes to effects on the sector level and micro level of the economy, the results are not as clear cut. Traditional economic theory, based on the notion of comparative advantage, predicts that in Western Europe high-skilled workers gain whereas low-skilled workers lose and vice versa for developing and transition countries (because European countries are relatively well endowed with high-skilled workers and transition countries are relatively well endowed with low-skilled workers). As a result, inequality within countries rises. As production processes that require low-skilled workers are relocated abroad, those that involve higher skilled labour remain in the country. Relative demand for high-skilled workers increases and wages increase. The inverse is true for low-skilled workers. As relative demand in the source country labour markets decreases, their wages go down and workers are displaced in the restructuring process.

The overall effect on the labour market then depends on the magnitude of the gains from relocation and on the structure of the labour market. When companies relocate stages of the production process or outsource them to lower-cost or more efficient suppliers, they should be able to expand production and employment in stages where they are strong. The overall effect of outsourcing depends on whether firms could and did create more jobs than were lost before. This argument assumes that workers are perfectly flexible and can easily move between jobs and sectors. In reality, this depends on the structure of the labour markets and the profiles of qualification.

Empirical evidence is difficult to obtain since it has proven difficult to disentangle the interlinked effects of technology, trade and relocation on wage and employment levels (Morrison-Paul and Siegel, 2001). There are numerous studies on the US manufacturing sector that show that there is an effect of outsourcing on jobs but that it has been exaggerated in the political debate. A major part of the decline in wages of low-skilled workers and the loss of manufacturing are attributable to technological change with computers and machines replacing manufacturing workers, rather than foreign workers replacing domestic workers. A study by Alliance Capital Management found that the United States saw an 11% decrease in manufacturing employment between 1995 and 2002 while manufacturing jobs decreased by 15% in China and by 20% in Brazil. The US number corresponds to the global average of 11% while global manufacturing output increased by 30%. This gives reason to conclude that jobs are not lost because of outsourcing but because of technological change (Drezner, 2004). A widely quoted empirical study by Feenstra and Hanson on the reasons for the decline of the cost share of US manufacturing labour in the production process found that 11% to 15% of the decline in wages between 1979 and 1990 can be attributed to outsourcing (Feenstra and Hanson, 1996).

A growing number of studies examine the effects of international relocation on European labour markets. For Germany, various studies find similar results as for the US. Imports of intermediate goods have a negative effect on wages of low-skilled workers and on the demand for low-skilled labour (Geishecker and Goerg, 2004). The exact nature of the effect depends on the structure of the labour market. In flexible labour markets (e.g. the United Kingdom), relative wages of unskilled workers decreased. In more rigid labour markets (e.g. Sweden, Italy), the effect translates into a decrease in employment of low-skilled labour as wages are less flexible due to the strong position of trade unions (Anderton, Brenton and Oscarsson, 2002).

While the above reasoning focuses on the notion of comparative advantage, there is a second mechanism that shapes international trade. When countries become more and more equal, they increasingly engage in intra-industry trade, that is, trade with similar products of similar quality. Gains from trade then arise from economies of scale, specialisation and diversification. Intra-industry trade is largely neutral in its effect on wages and employment of the workforce involved in the production process. Already today, trade by "pre-enlargement" European Union countries with new member countries and accession candidates is largely intra-industry trade, and fears of job losses from trade need to be revisited (Aturupane, Djanov and Hoekman, 1997).

When it comes to the highly disputed topic of service relocation, data analysis for business services until 2002 gives a mixed picture. The UK was a clear net outsourcer, Germany slightly so. France was a net insourcer. In absolute terms, France, Germany, the UK and the Netherlands are among the top ten outsourcers but were also among the top five recipients of global outsourcing (Amiti and Wei, 2004). Service relocation is still a very small percentage of the total phenomenon but it is increasing at a much faster pace (Amiti and Wei, 2004).

As far as intra-firm offshoring is concerned, popular concerns address both the fear of investment diversion from source countries to new host countries and the consequences on source country labour markets. One often gets the impression that FDI is a one-way street from developed to developing and transition economies. However, based on their actual GDPs, developing countries export more FDI than developed countries and the largest recipients of FDI are still the US, Germany, and the UK (UNCTAD, 2004).

Whereas generally countries are assumed to benefit from increased competitiveness of their firms, real effects also depend on the structure of the labour markets. Inflexible and sticky labour markets are a major reason why offshoring can have negative effects on the home economy. Whereas every dollar of corporate spending shifted offshore can generate up to $1.14 in US wealth, the same dollar spent by a German company leaves its home economy on average 20 cents worse off (McKinsey Global Institute). In France, every outsourced dollar spent on investment abroad by French companies left the French economy with a loss of 15 cents.

Policy makers in Europe and other developed economies cannot remain idle. Institutional reform and sound labour market policies are needed, as is an unemployment insurance genuinely oriented toward a return to employment. Other essential factors are a flexible salary system and an education and training system that facilitates labour mobility.

By contrast, some trade unions argue that far too much fault has been laid at the door to what was generally called “too rigid” labour markets in Europe. For them, adaptation is possible also with existing labour market policies where there is effective social protection and substantial social regulations that give the state a clear role. The labour force needs to be sufficiently flexible and capable of retraining. Lifelong training is needed but that was nothing new. The ILO has pronounced itself in favour of a flexible and permanently learning workforce for decades. Furthermore, the European Union has structural funds at its disposal and these should be used more widely. The trade unions' view is that it is wrong to say that wages are not flexible when in fact they have been so for the last decade.

Policy makers should be engaged in a discussion as to how to assist people who lose their jobs. The classic solution has been to organise untargeted social protection so as not to favour any particular category of the unemployed. Experience shows, however, that countries where policies have been more precisely targeted have fared better.

It is, however, very difficult to identify any one miracle solution. Rather, several policies will have to be conducted jointly so that people that are disadvantaged by a policy in one field can find compensation in another. It is also important to reach synergy between macro-economic policies and employment policies that help capital and labour to transfer from declining sectors to up-coming ones.

The volume of the benefits to the source country and company resulting from relocating jobs to more favourable foreign destinations depends principally on the following factors: the level of cost savings, the level of profits repatriated from the outsourced investment, the number of workers that can be re-employed in new jobs created in the source country with the aid of the increased profits, and the increase in sales to the outsourced production outlet. A comparison by McKinsey Global Institute of off-shoring investment made by US and French companies revealed that the reasons behind the lower gains made by French companies were related to the fact that French companies invested more heavily in North Africa and Eastern Europe, where cost savings were less than was the case in India, where US companies invested relatively more. Moreover, French companies did not reap as much profit from investing in off-shoring centres abroad as did US companies, and they sold less of their intermediate products to the outsourced companies. But the biggest difference with the US resulted from the inflexibility of France's labour market, as unemployed workers in France had much greater difficulties in finding a new job than did their US counterparts. Only 60% of unemployed French workers had found a new job within a year, whereas the more vibrant labour market in the US enabled 70% of unemployed workers there to find a new job within three months.

It would be misleading to argue that firms base their production decision solely on wage costs, as is often implied in media articles. What counts is labour productivity, which is reflected in wages. More qualified and more efficient workers receive higher wages but create more added value than less productive, less well-paid workers. Productivity in CSEE countries has risen sharply. In the new EU member countries the productivity/wage level is by now similar to or above the EU average (see table 2). This implies that the real issue at stake for the EU countries is not absolute wage rates, but rather labour productivity. McKinsey Global Institute found only a small impact of outsourcing but a strong decline in competitiveness.

There is clear evidence that the general level of competitiveness of the economy of the source country determines the level of outsourcing activities of companies on its soil. The lower the home economy's competitiveness, the higher the outsourcing investments of the home companies will be. Similarly, the inward investment into a source country by investors abroad is a clear indication how these perceive the competitiveness level of the country in question. Foreign investment in France and Germany fell sharply in 2004, reinforcing concerns that inflexible labour practices, weak domestic demand and an expensive domestic currency might be driving investors elsewhere. OECD figures indicated that inward investment in France almost halved from $43 billion in 2003 to $24 billion in 2004, while in Germany foreign investment decreased from $66 billion in 2003 to $27 billion in 2004. However, the weakness of the continental European economy did not affect the UK and the US. The US remained the biggest foreign investor as US companies almost doubled their overseas spending in 2004, with foreign direct investment outflows jumping to $252 billion from $141 billion in 2003. Foreign direct inflows into the clearly competitive UK market more than trebled in 2004, reaching $78 billion. At the same time, the UK is one of the countries in the world that accounts for the most direct investment abroad, thereby showing that a competitive economy can manage both to be a large recipient of investment and a big investor overseas.

Table 2. Wage rates and productivity in Europe

Country	Gross monthly average salary					Productivity[a]	Productivity/salary (EU-15=100%)
	1998	1999	2000	2001	2002	2000	2000
Average for the EU-15[b] Of which:	1 845	1 923	2 127	2 191	-	42.5	100
Greece	1 101	1 160	1 227	1 286	1 357	19.4	79
Portugal	-	-	1 052	1 112	-	10	48
Spain	-	1 297	1 326	1 372	1 425	26.1	98
New EU members from CEE[c] Of which:	-	381	410	460	-	11.7	117
Czech Republic	-	343	379	430	510	10.9	144
Estonia	-	282	303	328	-	8.3	137
Hungary	307	314	348	408	489	11.1	160
Latvia	-	257	277	280	-	-	-
Lithuania	233	251	270	300	-	-	-
Poland	346	442	471	626	598	9.3	99
Slovakia	274	260	299	320	382	9.2	154
Slovenia	-	895	935	988	1 041	21.3	114
EU candidates Of which:	-	115	132	146	153	-	-
Bulgaria	101	111	120	127	132	-	-
Romania	-	120	144	165	174	-	-

Source: UNCTAD, based on http://europa.eu.int/comm/eurostat/; www. dree.org/elargissement (data in italics); and Stephan 2003, p. 10 (for productivity data)
[a] Value added per € 1.000 labour costs, national average
[b] EUROSTAT estimate. Data for Austria, Ireland and Italy are not available.
[c] Average productivity is based on data for the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia only.

An answer to the question to what extent have the EU15 fears of relocation of activities and consequent job losses due to the fifth EU enlargement been justified was given in the study prepared by the EU Commission two years after enlargement (European Commission, 2006). Namely, the evidence indicates that FDI flows to the new member states, while relevant for the recipient countries, have in fact been only a minor part of overall FDI outflows of the EU-15: within the latter, in 2004 the share of outflows to new member states was 4% against a corresponding share of 53% for outflows to other member states in the EU-15 and a 12% share for flows to the US. In addition, a large part of the FDI by the EU-15 in the new member states, particularly in the services sector where most of FDI is invested, has occurred in the context of privatisation programmes to capture fast-growing markets and does not involve the substitution of activities previously carried out in the home country.

Furthermore, different studies have tried to identify the impact of relocation on non employment. Recent research for some EU-15 countries suggests that a mere 1% to 1.5% of the annual job turnover can be attributed to relocation, and that only a part concerns relocation to the new member states. In Germany and Austria, for example, two countries which figure among the largest investors in the EU-10, it is calculated that such investment has led over the past fifteen years to a lower employment creation, in cumulative terms, in the range of 0.3% to 0.7%, which is a very small percentage in particular if one also considers the overall job creation which took place over the same period. Moreover, in many instances, outsourcing part of the production process to the new member states has allowed firms in the EU-15 to strengthen their competitive position with a net favourable impact on employment (European Commission, 2006).

Impact on economic development of recipient countries

Relocation of economic activity, through, for instance, foreign direct investment is usually regarded as beneficial to the recipient country and has come to be regarded as an important tool for development. It provides investment capital that is lacking domestically and thus fosters economic development. Compared to other international capital flows, FDI is thought to be less volatile because of the long-term orientation of investors. In the context of developing and transition economies, FDI is expected to have spill-over effects to local industry and disseminate managerial and technological knowledge.

Spill-over can take four different directions: (i) through competition with foreign controlled plants, local companies strive to become more efficient and competitive; (ii) through cooperation of foreign owned enterprises with up-stream suppliers and downstream clients technological and managerial knowledge is transferred; (iii) technology spill-overs occur through imitation, or (iv) through movements of human capital from technology intensive foreign affiliates to domestic enterprises (UN/ECE Economic Analysis Division, 2000).

Reliable empirical studies of actual spill-overs are scarce and the few that exist show a mixed picture. For most of the new member countries of the EU, positive effects of FDI can be seen in the rise in productivity and in the increase in technology-intensive production, whereas the beginning of the transition process is dominated by labour-intensive and resource-intensive production. This becomes evident for example in trade flows from the accession countries. For German imports from the accession countries, the share of labour intensive textiles, clothing and leather goods dropped from 24% to 10%, whereas the share of high-tech products doubled to 55% from 1993 to 2001 (The Eastern Enlargement of the European Union, 2004).

Experience shows that it is much easier to attract FDI than to reap its benefits. Whether and to what extent spill-over effects occur will largely depend on country conditions. In particular, educational levels and institutional conditions are key determinants for successful use of FDI for economic growth. Countries that have been successful in developing domestic capital and high value-added industries as a result of FDI are also those which have engaged in far-reaching market reforms.

Investor confidence in a stable and beneficial institutional framework has been enhanced by the 2004 EU enlargement. The ten new EU members have so far received considerably more FDI flows than South-East European countries. For countries that are at the beginning of the accession negotiation process, future FDI inflows are of special importance. While investors gain confidence in these markets, the benefits from FDI also help these countries carry out necessary market reforms, improve infrastructure and liberalise trade.

It is evident that FDI is an important ingredient in development but not the only one. As a consequence of increased demand for low-skilled labour, wages in this segment rise (Egger and Stehrer, 2003). Indeed, many countries have already seen rising wage levels and a loss in manufacturing jobs in favour of countries with cheaper labour. Hungary's wage levels, for example, have risen by 20% between 2001 and 2003 and the country lost thousands of jobs when companies such as IBM, Philips and Flextronics shifted production to China (Central Europe Leads Growth in Call Centres, 2003). In 2003, the same number of Japanese firms that shifted capital abroad also repatriated capital to Japan, as wages in other Asian countries rose and concerns for the protection of intellectual property rights became stronger (Faut-il craindre les

Since, therefore, the low-cost advantage cannot form any stable basis for sustained economic prosperity in the region, domestic capital formation and creation of enterprises will have to be a priority for the countries in Central, South-Eastern and Eastern Europe (CSEE). The next wave of investment in the higher-skilled service sector is important for the diversification of many economies in Central, South-Eastern and Eastern Europe.

To better compete for IT outsourcing with countries like India and Ireland, the institutional framework is crucial. It is especially important for CSEE countries to improve their reputation for IT security and for protecting intellectual property. The rating agency, Gartner, rates Hungary, Poland and the Czech Republic as “fair” for IT security issues. This means that these countries are ahead of Russia judged by the agency as “poor” but behind India - “good” and Ireland - “excellent” (A Growing Opportunity to Close the Cultural Gap: Eastern Europe, 2003).

A major challenge for CSEE economies is the still high unemployment rates in most countries[2]. FDI has so far been concentrated on large corporations, and on capital cities or highly urbanised areas. Disparities within countries remain high. The main motors for job creation, however, are small and medium-sized enterprises. A policy that aims at fostering job growth thus has to set the appropriate incentives for the creation of small and medium-sized businesses along with FDI inflows.

It is natural and important for countries to engage in competition for FDI inflows. Tax reductions for corporations are one possible instrument that is increasingly being criticised by some governments in Western Europe, as they feel that low corporate taxes in the East are made possible by EU funding financed by Western European members. Company taxation rates are mostly below the pre-enlargement EU average of 32.5% - such as for instance 19% in Poland, 16% in Hungary and 25% in Slovenia. However, they do by far not reach Ireland's rate of 12.5%. This criticism aside, there are intrinsic motivations for countries in the transition process to avoid a downward spiral of tax reductions. CSEE countries still face major challenges, for example in infrastructure development. If infrastructure investments have to be reduced due to reduced government budgets, this could have negative consequences as regards the country's attractiveness to investors.

2. For example top FDI host countries like Poland with 19.1%, or Slovakia with 17.1%

OUTSOURCING, FDI AND EUROPEAN ECONOMIC INTEGRATION

The economies of Central, Eastern and South-Eastern Europe are expected to experience a surge in FDI in the years to come. The UNCTAD World Investment Report 2004 expects FDI to increase steadily in the EU accession countries as well as in other CSEE countries. The lion's share of global and European FDI, however, is expected to flow to India and China. Given this, it would seem inappropriate for policy makers to focus their concerns over outsourcing mainly on the CSEE countries and thereby risk jeopardising their economic development and transition.

Indeed, FDI flows to these countries will enhance their economic integration with other parts of Europe and the world economy as a whole - a process accelerated, as the case may be, through EU accession, ongoing or expected accession negotiations, or other arrangements with the EU such as its "Neighbourhood Policy". This in turn means increased trade and potential capital flows in the opposite direction, that is, from the CSEE to Western European countries. As we have seen, companies in many CSEE countries already engage in FDI in Europe and globally. When seen in proportion to the economic size of countries, it turns out that developed countries are not the major source of FDI, but that indeed developing countries engage in more FDI as a share of their GDP (Mann, 2003).

As has been shown above, relocation is complementary to increased trade, which fosters economic integration between Western European and CSEE countries, eventually leading to an even better functioning European market. The road to global competitiveness starts with competition at home. The best way to improve the competitiveness of the European economy on a global scale is to allow competition within and between the European countries. Relocation, being a corporate phenomenon, could contribute to that goal, as well as to a more balanced economic development across Europe, via indirect, non-governmentally driven, development assistance to less developed European economies.

Sometimes multinationals are seen as wanting to play out one work side in one country against another located in a different country. For example, General Motors recently announced that 10,000 jobs would be cut in Europe over the next six months. Following that, however, workers in Germany, Poland and Sweden showed a remarkable degree of solidarity, leading the company to abandon any plans for imminent layoffs.

The relocation of some productive functions could increase economic welfare in both the investor's home country and the recipient country. But to reap the full benefits of this, the advanced European economies will have to implement some necessary reforms, foremost in the liberalisation of the markets for labour and products, and as regards social and economic policies. These reforms have been on the European agenda for quite some time, but since most tend to be quite unpopular, few countries have had the determination to implement them. Relocation has demonstrated that the recipient countries have been able to embark on similar reforms at home, thus creating competitive and appealing conditions for attracting investments, while simultaneously prompting developed economies to finally follow the reform path in creating the basic environment for improved competitiveness.

FDI contributed significantly to the high economic growth of Spain and Ireland in the late 1980s and the 1990s. These countries thereby managed to reduce unemployment, and especially Ireland successfully developed a high-tech sector. These developments also enhanced the overall attractiveness of the EU for investors from overseas and led to FDI inflows notably from the US and Japan. CSEE countries are now seeking to catch up and emulate these successful models.

CONCLUDING REMARKS

One of the aims of this paper is to place relocation of economic activities abroad within the broader context of its potential contribution to rectifying problems that occurred in the recipient countries' labour market due to losses sustained through brain drain and the emigration of skilled workers. Furthermore, worrying aspects of relocation for the recipient countries are to be taken into account, such as having trade and economic relations with the source countries too dependent on the relocation phenomenon (for instance, 70% of Romania's trade with the EU is derived from outsourced facilities). Other aspects include the risk of unpredictable further relocation towards Asian countries; the unfavourable impact of competition with Asian countries based on cheaper labour, in that these may discourage wage increases in the European countries receiving investments; and the still limited scope for the transfer of technology and marketing capacities following the relocation of capital to many recipient countries.

The effects of international outsourcing and offshoring activities by European firms on their domestic labour markets are considerable. There is increasing evidence of at least short- and medium-term losses for low-skilled workers and the lower wage segments of the labour force. There are, however, by the same token major benefits to be derived, such as increased competitiveness of firms across Europe and the world, stronger economic growth resulting from increased continent-wide integration, political dividends as greater wealth in the CSEE result in greater political stability and a stronger democracy, and wealth gains for citizens as prices are kept lower than they otherwise would have been (due to increased competition and lower costs of production), also resulting in lower inflation.

In order to meet these effects, reforms of labour markets are needed. With more flexible labour markets, displaced workers may more easily move to more competitive sectors. Clearly this represents a significant challenge for many European countries which are already coping with high unemployment. By the same token, social policies are needed to palliate the effects. If disadvantaged and displaced workers do not receive support it will be difficult to maintain a societal consensus on economic openness, which as we have seen is an important drive of economic growth.

Liberalisation of trade in services, including through an increase in competition in the services sector within countries, could considerably raise economic growth and allow European citizens better value for money. It could be done either via WTO agreements, within the EU or by individual nations. Indeed, the OECD has found that countries that liberalise their services sector regardless of whether other countries do so show persistently higher economic growth. The potential benefits for all sides from a rise in global purchasing power are obvious. If the latter increases significantly, then everyone will be able to trade and invest more in an increasingly intertwined world economy. The biggest export market for the Italian car maker Ferrari is not the US or Italy, but China. We are back to where this paper began, namely the view that the relocation of economic activities - if pursued with due attention to the social and economic consequences resulting from it and closely monitored by the international community as a whole - is likely, as Europe's own experience with its economic integration has shown so clearly, to be “win-win” rather than “win-lose” or, even more pessimistically, “lose-lose”.

Furthermore, FDI and international relocation can be important sources of lasting economic growth in recipient countries, provided they manage to create a favourable institutional framework, ensure good governance and encourage inflows into knowledge intensive sectors from where new knowledge can be diffused throughout the overall economy.

Economic development in all parts of Europe must be a top priority for policy makers across the continent, as this will enhance overall economic integration and prosperity. Relocation forms part of that process and will in due course be seen for what it is, namely as highly beneficial for the realisation of the ideals of an integrated Europe as a whole.

Social and economic consequences of relocation are to be brought into close connection with the Lisbon Agenda. Success in implementing the Lisbon goals seems to be crucial for addressing and rectifying negative impacts of relocation on outsourcing economies. More jobs and more growth, if achieved under the Lisbon Agenda, would definitely ease social and political hardships that the transfer of production would bring to a certain country or region.

Richer European countries with higher wage levels, more elaborate social protection and often a more established labour market, complain of domestic companies moving all or part of their production to countries with lower wages, less social protection and less regulated labour markets. Relocation may, at least temporarily, lead to considerable individual and social hardship and suffering, as a town or region may lose a vital source of employment and income. This social aspect of the relocation process must never be neglected. Solidarity in coping with negative social impacts of globalisation and relocation must be further promoted not only at the national economic policy level, but also at the multilateral level of the EU. A proposal of the European Commission to set up a "globalisation adjustment fund" goes along these lines.

New EU members and candidate countries are certainly interested in continuation of relocation flows, because they regard it as an additional corporate-based development assistance that makes European economic cohesion easier. They perceive relocation as an important contribution to their overall development and catching up with developed countries. And indeed, the attractiveness of their economies was created by implementing some harsh reforms that must be sustained.

Though relocation could be considered a concrete manifestation of globalisation, technological restructuring, and the almost natural tendency for companies to allocate their investments optimally, governments have to find a proper answer to the macroeconomic and microeconomic challenges opened up by relocation. The answer to the relocation hardships of sending countries should not be an administrative ban on this genuinely unstoppable process.

The Lisbon Strategy seems to be part of a solution, because if implemented properly, it could prompt governments of developed EU members to pursue bold structural reforms in all sectors including labour, products, services and education, in order to increase competitiveness and put their countries into a position to attract foreign investments and become as much senders as recipients of relocation. In that regard, the policy of promoting employability turns out to be more efficient than the policy that just protects employment. The road to global competitiveness begins with competition at home.

Croatia is a candidate country for EU accession. We have already undergone comprehensive and demanding reforms that brought us to the stage of negotiating terms of our accession to the EU. From a candidate country's point of view, Lisbon might look quite remote, compared to a series of various transition and accession challenges that are to be overcome and mastered beforehand. But, it is important that economic policies discourage all those who would try to undermine and delay Lisbon Agenda implementation in respective co-candidate countries.

In fulfilling the Copenhagen economic criteria Croatia has already made significant progress. Croatia is a functional market economy, but we still need a mid-term period in order to be capable of resisting competitive pressures coming from the EU market. Implementing the Lisbon Strategy and its goals for Croatia is of at least threefold advantage. It means for us - overcoming transition hardships, assisting in meeting Copenhagen accession criteria, and catching up with the EU competitiveness level that would bring long-term prosperity. Therefore, upgrading our engagement in all activities related to the Lisbon Agenda is needed. It will not be a process of sequencing, but rather a parallel process to our accession negotiations. This includes embarking on Lisbon implementation even before Croatia becomes an EU member, though we do not expect it to constitute additional criteria or economic objectives for accession.

All candidate countries are presented with a unique opportunity to combine their efforts to meet Copenhagen economic criteria in full with the efforts to meet the goals of the Lisbon Agenda. In this interrelated endeavour they have substantially increased their interest, contribution and understanding of the Lisbon Process. It is no longer just a member state's business. It is becoming a substantial part of the economic policy of the candidate countries themselves.

Croatia has recently adopted a Strategic Development Framework. This document is part and parcel of our pre-accession commitments. It is based on the Lisbon Strategy, encompassing its goals and methods. Immediately afterwards, Croatian authorities should start preparing an Action Plan aimed at implementing specific Lisbon reforms. The Croatian Parliament will maintain high level of public awareness of this matter and will hold the Government accountable for engaging all relevant stakeholders in preparing the future national reform programme.

We in Croatia are aware of the challenges, backlogs and delays the member states are facing when dealing with the Lisbon Agenda, especially after the most recent big enlargement wave. We are interested in closely monitoring their experience and practice. This enormous goal is to be achieved not only by utilising joint EU funds and policies, but primarily by challenging the best national capacities.

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GLOSSARY

Hrvoje Butković

GLOSSARY

Annual Progress Report (APR) / European Commission's Annual Progress Report on Growth and Jobs

The Annual Progress Report (APR) also known as the European Commission's Annual Progress Report on Growth and Jobs is part of a new monitoring system created within the framework of the revised Lisbon Strategy. The first APR was issued in January 2006. In the framework of the APR every year starting from autumn 2006, member states have to prepare National Progress Reports (NPRs) on follow-up to the Lisbon Strategy. After submission of NPRs and their analysis by the Council and the Commission, the European Commission issues the APR assessing the National Reform Programmes (NRPs). The APR may contain a country specific recommendation. Based on the Commission's assessment, the European Council reviews progress every spring in order to decide on necessary adjustments to the Integrated Guidelines on Growth and Jobs (IGs). In 2008, as the final year of the current three-year governance cycle the APR will be renamed into Strategic Report, which will provide a more “in-depth” review. Apart from being based on National Progress Reports (NPRs) the APRs and the Strategic Report also build upon progress reports on the implementation of the Community Lisbon Programme (CLP).

Benchmarks, benchmarking

The benchmarks are points of reference, defined as a result of evaluation (benchmarking) in relation to best practices. They are a tool for promoting convergence towards best practice. The term benchmarking is usually used in management and strategic management. Benchmarking provides an understanding of the processes that lead towards superior performance. It first identifies the key areas that need to be benchmarked and the appropriate criteria on which to evaluate that area. It then identifies best practice to measure how those results have been achieved. In the EU jargon, benchmarking is used to assess the relative performance of a member country in implementation of EU policy against defined targets (e.g. the Lisbon Strategy goals) and of a non-member country against meeting various EU standards (e.g. in alignment with the EU *acquis* for candidate countries). Benchmarking is used as a reference in developing national plans on how to adopt best practice, usually with the aim of increasing some aspect of performance.

Broad Economic Policy Guidelines (BEPGs)

The BEPGs are the central instruments for coordination of member states' economic policies. They ensure multilateral surveillance of economic trends in the member states and demonstrate a formal commitment to respecting the provisions of the treaty in terms of surveillance and coordination of economic policies. The legal basis for the BEPGs is Article 99 of the Treaty establishing the European Community. The Council, acting by a qualified majority on a recommendation from the Commission, produces a draft for the BEPGs and reports its findings to the European Council, which adopts a conclusion. On the basis of this conclusion, the Council, acting by a qualified majority, adopts a recommendation setting out these broad guidelines. The European Parliament is informed of this recommendation. Since 2003, the BEPGs have been published for a period of three consecutive years, while earlier they were published annually. The revised Lisbon Strategy in 2005 decided to integrate the BEPGs together with the Employment Guidelines (EGs) forming the Integrated Guidelines for Growth and Jobs (IGs) which are set for a three-year period.

Community Lisbon Programme (CLP)

The Community Lisbon Programme is the major tool for achieving the Lisbon Strategy goals at the EU level. As one of the key instruments in the revised Lisbon Strategy it was introduced in 2005. The CLP sets priorities for action at the Union level and forms a complement to the National Reform Programmes (NRPs) for growth and jobs that member states had to finalise before October 2005. The CLP outlines actions to be taken at the EU level under three key policy areas: making Europe a more attractive place to invest and work; knowledge innovation for growth; and creating more and better jobs. The programme consists of 50 initiatives (regulatory actions, financing actions and policy development) which have been or will be taken at EU level to refocus the EU's economic reforms agenda on growth and jobs. Initiatives in the CLP concentrate on key actions, such as the support of knowledge and innovation in Europe, the reform of the state aid policy, better regulation, the internal market for services, the completion of the Doha round, the removal of obstacles to mobility, economic migration, and the social consequences of economic restructuring. In the current three-year governance cycle (2005-2008) the Commission will issue three progress reports on the CLP implementation. At the end of the current three-year governance cycle the CLP will be renewed.

Copenhagen criteria

The Copenhagen criteria are accession criteria defined by the Copenhagen European Council in June 1993. They relate to the candidate countries and the EU. According to the Copenhagen criteria, accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required. Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries.

Employment Guidelines (EGs)

The Employment Guidelines (EGs) present common priorities to the member states national employment policies. They are proposed by the Commission and approved by the Council. The EGs were initially introduced in 1997 as part of the European Employment Strategy (EES), and they are among key instruments for realisation of goals set down in the Lisbon Strategy. The EGs lay down the priorities for structural reforms to be implemented in order to achieve the main economic objectives of the European Union. Their legal basis is Article 128 of the EC Treaty. They provide a policy framework to focus action on full employment, productivity, quality at work and social and territorial cohesion, as principle objectives of the EES. The EGs focus on these priorities by attracting and retaining more people in employment, increasing labour supply and modernising the social protection system, improving the adaptability of workers and enterprises, and increasing investment in human capital through better education and skills. Since 2003, the EGs have been published for a period of three consecutive years, while earlier they ware published annually. The revised Lisbon Strategy in 2005 decided to integrate the EGs together with the Broad

Economic Policy Guidelines (BEPGs) forming the Integrated Guidelines for Growth and Jobs (IGs) which are set for a three-year period.

European Employment Strategy (EES) / Luxembourg Process

The European Employment Strategy (EES) also known as the Luxembourg Process represents an action and development plan launched in 1997 at the Luxembourg Jobs Summit on the basis of the new provisions in the employment title of the Amsterdam Treaty. The EES represents an employment pillar of the Lisbon Strategy. Its ambition was to achieve decisive progress within five years. An extensive evaluation of the first five years was carried out in 2002 emphasising the need to revamp the EES with a view to aligning it more closely to the Lisbon goals which occurred with new simpler guidelines in 2003. The EES is an annual programme of planning, monitoring, examination and readjustment of policies put in place by member states to coordinate the instruments they use to tackle unemployment. Until the re-launch of the Lisbon Strategy in 2005 the EES was based on four components: Employment Guidelines (EGs) - common priorities for member states' employment policies drawn up by the Commission; National Action Plans (NAPs) for employment - implementation of the EGs at national level; Joint Employment Report - summary of the NAPs for employment to be used as a basis for drawing up the following year's EGs; and recommendations - country-specific recommendations adopted by the Council by a qualified majority. The relaunch of the Lisbon Strategy in 2005 led to a thorough review of the EES. Since then the EES is based on four components: the Integrated Guidelines for Growth and Jobs (IGs) - the guidelines for employment are now presented jointly with the guidelines for the EU's macroeconomic and microeconomic policies; the National Reform Programmes (NRPs) for each country; the Commission's Annual Progress Report on Growth and Jobs; and any recommendations adopted by the Council.

Flexicurity

Flexicurity (originating from flexibility and security) is a welfare state model, a mix of flexibility and social security, combining job security, an active labour market, and the social policies and skills needed for a knowledge economy. The model is a combination of easy hiring and dismal (flexibility for employers) and high benefits for the unemployed (security for the employees). It was first implemented in Denmark by the social democratic Prime Minister Poul Nyrup Rasmussen in the 1990s. In context of the Lisbon Strategy flexicurity is a case of good practice, bearing in mind the fact that social protection must be given high importance. It is a model aiming to enhance flexibility of labour markets, work organisation and social security. The EU is investigating flexicurity as a possible future European model, mainly because it has contributed to almost full employment in Denmark with fewer than 4% of the population unemployed, according to the OECD. An unemployed person in Denmark is required to constantly seek employment or further education in order to receive full benefits.

EU Sustainable Development Strategy (EU SDS) / Gothenburg Strategy

The EU Sustainable Development Strategy (EU SDS) also known as the Gothenburg Strategy is an action and development plan adopted at the Gothenburg Summit in June 2001. This strategy adds a third dimension - the environment - to the twin social and economic pillars EU leaders identified at the Lisbon European Council Summit in March 2000 as key factors in the creation of an internationally competitive and socially inclusive European Union. In line with this, the EU SDS is based on the idea that in the longer run economic growth, social inclusion and environmental protection must go hand in hand. This entails a process in which a wide variety of actors, including European and national policy makers, the business community and civil society, bear a shared responsibility. The EU SDS has important implications for policy-making at all levels. It requires a truly integrated, coherent and balanced approach, which maximises synergies between relevant economic, social and environmental aspects where possible, and mitigates trade-offs where these are unavoidable. Following the review of the EU SDS launched by the Commission in 2004 and on the basis of contributions from the Council, the European Parliament, the European Economic and Social Committee and others, in June 2006 the European Council adopted an ambitious and comprehensive revised EU SDS for an enlarged European Union. This document reaffirms the need for global solidarity and recognises the importance of working with partners outside the EU, including those rapidly developing countries which will have a significant impact on global sustainable development. The overall aim of the revised EU SDS is to support and promote actions to enable the EU to achieve continuous improvement of quality of life for both current and future generations, through the creation of sustainable communities able to manage and use resources efficiently and to tap the ecological and social innovation potential of the economy, ensuring prosperity, environmental protection and social cohesion.

Integrated Guidelines (IGs)

The Integrated Guidelines for Growth and Jobs (IGs) are the central policy-making instrument for the development and implementation of the revised Lisbon Strategy. In 2005, following the Commission's adoption of the IGs they were later endorsed by the European Council and formally adopted by the Council after that. The IGs constituting the beginning of a new three-year governance cycle (the first one was 2005-2008), brought together the Broad Economic Policy Guidelines (BEPGs, Treaty art. 99) and the Employment Guidelines (EGs; Treaty art. 128). They simplified implementation of the Lisbon Strategy by integrating different policy guidelines, targets and reporting processes. The IGs foresee a three-year period of reforms (the period is to be revised annually). They provide the basic structure for presentation of the National Reform Programmes (NRPs), but they also leave sufficient space for member states to set national priorities according to their specific situations. The IGs deal with macroeconomic, microeconomic and employment issues and they are mainly based on the priority action areas as identified in the Kok Report. Like the earlier BEPGs and EGs, the IGs represent the soft law, i.e. they are not legally binding. Therefore peer pressure and financial incentives represent their main enforcement instruments. At the end of the current three-year governance cycle the IGs will be renewed.

Kok Report

The Kok Report is a short name for a document "Facing the Challenge - The Lisbon Strategy for Growth and Employment" drawn up between April and November 2004 under the chairmanship of the former Dutch Prime Minister Wim Kok. The report was presented to the European Commission and it suggested how to give new impetus to the Lisbon Process. Wim Kok was head of the review group established by the European Commission which consisted of 12 individuals representing different stakeholder groups. The remit of the report was to identify measures which together form a consistent strategy for the European economies to achieve the Lisbon objectives and targets. The report showed that the indicators used in the OMC had caused the Lisbon Strategy objectives to become muddled and that the results achieved had been unconvincing. The scenario for more growth and jobs was envisaged through urgent action across five policy areas: the knowledge society, the internal market, the business climate, the labour market and environmental sustainability. It was concluded that individual member states have made progress in one or more of these policy priority areas, but none has succeeded consistently across a broad front. Therefore, the report recommended developing national policies in each member state, supported by an appropriate European wide framework. The Kok Report represented the base for the mid-term review of the Lisbon Strategy which took place at the following year's spring European Council.

Lisbon Strategy

The Lisbon Strategy, also known as the Lisbon Agenda or Lisbon Process, is a comprehensive action and development plan for the European Union. It was set out by the European Council in Lisbon in March 2000. This strategy, developed at subsequent meetings of the European Council, rests on three pillars: an economic pillar preparing the ground for transition to a competitive, dynamic, knowledge-based economy; a social pillar designed to modernise the European social model by investing in human resources and combating social exclusion; and an environmental pillar (added at the Gothenburg European Council meeting in June 2001) which draws attention to the fact that economic growth must be decoupled from the use of natural resources. In the Lisbon Strategy the EU set itself the strategic goal to become *"the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth with more and better jobs and greater social cohesion"*. A list of targets has been drawn up with a view to attaining the goals set in 2000. Given that the policies in question fall almost exclusively within the sphere of competence of the member states, an Open Method of Coordination (OMC) entailing the development of National Action Plans (NAPs) for employment under the European Employment Strategy (EES) has been introduced. Between 2000 and 2005 the Lisbon Strategy relied on two principal instruments for the realisation of its goals: the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs). The Lisbon Strategy also provided for the adaptation and strengthening of existing coordination mechanisms: the Luxembourg process for employment, the Cardiff process for the functioning of markets (goods, services and capital) and the Cologne process on macroeconomic dialogue. The thorough revision of the Lisbon Strategy was agreed upon in 2005 at the spring Council meeting (see the revised Lisbon Strategy/mid-term review).

National Action Plans (NAPs)

The National Action Plans (NAPs) for employment were the major reporting tools on employment measures for achieving the Lisbon Strategy goals in 2000-

2005. They were written annually by the member states to the Commission and they were developed as part of the European Employment Strategy (EES) - the employment pillar of the Lisbon Strategy. The NAPs for employment ware detailed plans covering over 20 employment guidelines (EGs) grouped under four pillars: employability, entrepreneurship, adaptability and equal opportunities. Alongside the NAPs for employment in 2001, member states started publishing the NAPs for inclusion. Unlike the NAPs for employment, the NAPs for inclusion ware based on very broad general objectives. They were published biannually (2001-2003; 2003-2005) with the intention to develop common indicators. The NAPs for inclusion appeared in wide diversity both in form and in degree of compliance with European priorities; they were not formally part of the European Employment Strategy (EES). The relaunch of the Lisbon Strategy in 2005 revoked both the NAPs for employment and the NAPs for inclusion. The NAPs for employment ware replaced with National Reform Programmes (NRPs) covering both employment and economic measures (see the National Reform Programmes).

National Reform Programmes (NRPs)

The National Reform Programmes (NRPs) are major reporting tools on economic and employment measures for achievement of the Lisbon Strategy goals by the member states. Together with the Community Lisbon Programme (CLP) they are among the key instruments of the revised Lisbon Strategy. They are expected to be national reform strategies to be implemented by governments. The NRPs are based on a partnership between the Commission and the individual member state and between member state authorities and domestic stakeholders. The NRPs are expected to be relatively short political documents having up to 30-40 pages, plus annexes. Member states prepared NRPs by October 2005 for the three-year governance cycle (2005-2008) on the basis of the 23 integrated policy guidelines (IGs). The main body of the NRPs consists of the policy actions related to the identified domestic challenges, as well as addressing the IGs. The NRPs should principally consist of three major parts related to three kinds of guidelines: macroeconomic policy, microeconomic policy (replacing the earlier Cardiff reports) and employment policy (replacing the National Action Plans (NAPs for employment)). Member states in their NRPs identified different challenges and policy responses reflecting their different starting positions and political preferences. Starting positions and the pace of reform are monitored by a number of benchmarks, which should, at a later stage, help identify best practices, and name and shame the laggards. At the end of the current three-year governance cycle requirements for the NRPs will be renewed.

Open Method of Coordination (OMC)

The Open Method of Coordination (OMC) is a relatively new and intergovernmental method of governance in the European Union, based on the voluntary cooperation of its member states. The OMC was first applied in EU employment policy, as defined in the Amsterdam Treaty of 1997, although it was not called by this name at the time. It was officially named, defined and endorsed in 2000 at the Lisbon Council as an instrument of the Lisbon Strategy in the realm of social policy. The OMC takes place in areas which fall within the competence of the member states and it is based on their voluntary cooperation. It rests on soft law mechanisms such as guidelines, indicators, benchmarking, sharing of best practice and peer review and it takes place in areas such as employment, social protection, social inclusion, education, youth and training. The OMC provides a new framework for cooperation between the member states, whose national policies can thus be directed towards certain common objectives. Generally, the OMC works in stages. First, the Council agrees on policy goals. Member states then translate guidelines into national and regional policies. Thirdly, specific benchmarks and indicators to measure best practice are agreed upon. Finally, results are monitored and evaluated by the Commission. Under this intergovernmental method, the member states are evaluated by one another (peer pressure), with the Commission's role being limited to surveillance. The European Parliament and the Court of Justice play virtually no part in the OMC process. In the context of the Lisbon Strategy, the OMC requires member states to draw up National Action Plans (NAPs) for employment (after the mid-term review the National Reform Programmes NRPs) and to forward them to the Commission.

Revised Lisbon Strategy/mid-term review

The revised Lisbon Strategy also known as the mid-term review refers to the revision of the original Lisbon Strategy that was agreed at the spring Council in 2005. The revision closely followed the conclusions of the Kok Report which suggested how to give new impetus to the Lisbon Process. It did not change the original intentions of the Lisbon Strategy but it decided that the future orientation of the strategy should be focused on growth and jobs. This revised strategy is no longer based on all the targets set in 2000, and only the figure of 3% of GDP for research and development is being retained. The Commission proposed partnership with member states on growth and jobs and introduced a Community Lisbon Programme (CLP) that outlines actions to be taken at the EU level under three key policy areas: making Europe a more attractive place to invest and work; knowledge innovation for growth; and creating more and better jobs. On the level of the member states National Reform Programmes (NRPs) have been introduced as a major reporting tool on economic and employment measures for the achievement of the Lisbon Strategy goals by the member states. Furthermore, the spring Council in 2005 decided on a new policy-making instrument for the development and implementation of the revised Lisbon Strategy involving the adoption by the Council of Integrated Guidelines for Growth and Jobs (IGs). These IGs become the basis for member states to produce their NRPs.

Sapir Report

The Sapir Report "An Agenda for a Growing Europe - Making the EU Economic System Deliver", is a document drawn up in 2003 by a group of independent experts under the chairmanship of André Sapir. The Sapir Report examines all facets of the EU economic system: homogenous market and related microeconomic policies as well as macroeconomic policy (monetary union and EU budget). The report has the status of an agenda-setter. It proposed a six-point agenda with a view to achieving the objectives of the Lisbon Strategy and making enlargement a success: to make a single market more dynamic; to boost investment in knowledge; to improve the macroeconomic policy framework; to redesign policies for convergence and restructuring; to achieve effectiveness in decision-taking and regulation; and to refocus the EU budget.

Stability and Growth Pact

The Stability and Growth Pact is an agreement by European Union member states related to the conduct of fiscal policy. The Stability and Growth Pact (SGP) pertains to the third stage of Economic and Monetary Union (EMU), which began on 1 January 1999. It strengthened the EC Treaty provisions on fiscal discipline in the EMU foreseen by the Treaty art. 99 and 104 with the intention to ensure that the member states maintain budgetary discipline after the single currency has been introduced. In formal terms, the pact consists of a European Council resolution (adopted at Amsterdam on 17 June 1997) and two Council regulations of 7 July 1997 laying down detailed technical arrangements (one on the surveillance of budgetary positions and the coordination of economic policies and the other on implementing the excessive deficit procedure). Following discussions on operation of the SGP, the two regulations were amended in June 2005. In the medium term, the member states undertook to pursue the goal of a balanced or nearly balanced budget and to provide the Council and Commission with a stability programme by 1 March 1999 (and update it annually thereafter). Similarly, states not taking part in the third stage of EMU, i.e. those that have not (yet) introduced the euro, are required to submit a convergence programme. The SGP opens the way for the Council to penalise any participating member state that fails to take appropriate measures to end an excessive deficit (the "excessive deficit procedure"). Initially, the penalty would take the form of a non-interest-bearing deposit with the Community, but it could be converted into a fine if the excessive deficit is not corrected within two years. However, there is no fixed rule concerning these penalties; they are subject to an assessment of circumstances by the Council.

Notes on the Contributors

Hrvoje Butković

Hrvoje Butković is a research assistant in the Department for European Integration at the Institute for International Relations (IMO) in Zagreb. Since 2002 he is enrolled in the postgraduate programme in European Studies at the Faculty of Political Science, University of Zagreb. He published papers on European integration and participated in development and implementation of several research projects focusing on Croatian integration into the EU. His current research focus includes regionalism in Europe and the EU environmental policy.

Mirko Hempel

Mirko Hempel, studied economics and African sciences at the University of Leipzig and graduated in 1990 with an honours diploma. The same year he joined the German Development Institute (GDI) in Berlin as a research fellow to conduct a study on the competitiveness of small and medium-sized enterprises in Seoul and Pusan, South Korea. Since 1991 he has been employed at the Friedrich Ebert Stiftung: 1991-1993 in Windhoek/Namibia as economic advisor; 1993-1996 in Gaborone/Botswana as Project Manager for various projects on economic development, 1996-2000 in Erfurt/Germany as Director of the FES office Thuringia, 2000-2001 in FES headquarters Bonn, in charge of projects in New York, Geneva, Mexico, Jamaica and Ecuador; 2001-2004 Director of the FES office in Dakar/Senegal; since 2004 Director of the FES office in Zagreb, in charge of projects in Croatia and Slovenia.

Matevž Hribernik

Matevž Hribernik (1973) is a Senior Adviser at the Institute of Macroeconomic Analysis and Development. He is a secretary of the governmental Lisbon Strategy working group in Slovenia. His current professional focus includes coordination and monitoring of the Lisbon reform programme and the preparation of the Slovene presidency in 2008 regarding the Lisbon Strategy. He has participated in several governmental working groups, and currently he is also an alternate member in the Economic Policy Committee (EU). He is also deeply involved in the country review and structural indicators working group of the Economic Policy Committee.

Neven Mimica

Neven Mimica (born in 1953) is a Member of Parliament in Croatia. He is also the Chairman of the European Integration Committee of the Croatian Parliament. He was the Minister of European Integration (2001-2003) and the Deputy Minister of Economy (1997-2001), as well as the Chief Negotiator for Croatia's accession to the World Trade Organization and the Chief Negotiator for the Stabilisation and Association Agreement with the European Union. He graduated in economics (M.A., 1976) from the Faculty of Economics in Zagreb, and holds a postgraduate degree in Foreign Trade Macroeconomics (1987) from the same faculty. His current professional focus is directed towards fostering parliamentary contribution and monitoring of the Croatian accession negotiations with the European Union, enlargement processes in the European Union, economic, legislative and social reforms in the transitional countries and political aspects of regional and European policy reforms.

Martin Potůček

Martin Potůček is a Professor of Public and Social Policy at the Faculty of Social Sciences, Charles University in Prague, and Head of the Center for Social and Economic Strategies also at the Charles University in Prague. He is also a permanent guest professor at the University of Constance in Germany. In the past, Professor Potůček studied the teleonomic qualities of differentiated social actors, processes of cultivation and utilisation of human potential, and factors influencing health and health policy. At present he is concentrating on research into processes of forming and implementing public policy in the Czech Republic and particularly the regulatory functions of the market, government and civic sector in the European context, on global dimensions of public and social policy, and on the problems of public administration reform. Martin Potůček coordinates the comprehensive forecasting projects at the national level. He has published ten monographs (seven as the head of the author's teams or the editor), 60 original articles in scientific journals, five textbooks and 90 research papers and policy projects.

Marius-Jan Radlo

Marius-Jan Radlo is the VP for Research of the Polish Lisbon Strategy Forum at the Gdańsk Institute for Market Economics and associate professor at the Warsaw School of Economics. He holds a PhD in Economics from the Warsaw School of Economics (2003). He graduated in economics (M.A., 1998) and political science (M.A., 1999) from the Maria Curie Skłodowska University in Lublin. He also holds a postgraduate degree in European integration from the National School of Public Administration (Poland) and the Ecole Nationale d'Administration (France). His current research focuses on economic reform processes in the enlarged EU with special respect to fostering economic growth and convergence as well as on the political economy of policy reforms. At his position in the Polish Lisbon Strategy Forum he is responsible for coordination of research activities conducted under the auspices of the Polish Lisbon Strategy Forum. In his current position at the Warsaw School of Economics he deals with economic reform in the EU in a comparative EU-US perspective.

Christa Randzio-Plath

Christa Randzio-Plath, PhD is Professor of Social Sciences at the University of Hamburg and at the College of Europe. She also works as an adviser to the European Commission. Professor Randzio-Plath started her career working as an editor, lawyer and tax-lawyer. From 1976 to 1978 she worked in the Council of Europe as a Deputy Chief of Cabinet. From 1989 to 2004 she was a member of the European Parliament where among other commitments she also served as the Speaker of the Socialist Group, Chairwoman of the Subcommittee on Monetary Affairs and Chairwoman of the Committee on Economic and Monetary Affairs. Professor Randzio-Plath is active in a number of civil society organisations; since 1984 she has served as President of the Marie-Schlei-Association, a non-governmental organisation giving financial support to women's projects in third world countries. She has published a great number of articles and essays on Europe, Eastern Europe, European Monetary Union, women's policy and development policy. In 2001 she received the PhD h.c. title from the University of Hamburg where she started to teach in 2005.

Višnja Samardžija

Višnja Samardžija obtained her PhD (1993) and M.A. (1978) at the Faculty of Economics, University of Zagreb. She is Head of the Department for European Integration in the Institute for International Relations IMO, Zagreb which she joined in 1981. She was assistant minister in the Ministry for European Integration (between 2000 and 2004) and was actively involved in the accession process to the EU. Presently is participating in two negotiating working groups on EU membership. She has taken part in or coordinated a number of international projects and conferences; published a number of articles in journals, books and proceedings in Croatia and abroad. Her area of interest includes EU enlargement, EU policy towards South-Eastern Europe and the EU accession of Croatia. She is editor of the IMO book series Europe launched in 1994, a member of the editorial board of the web portal EnterEurope and has edited the IMO bulletin Euroscope (1991-2005). She also lectures on several European study programmes (Faculty of Political Sciences, Zagreb; University J.J. Strossmayer Osijek and Zadar).

Tamás Szemlér

Tamás Szemlér (born 1968), economist, joined the Institute for World Economics of the Hungarian Academy of Sciences (IWE), Budapest in 1993. He is now senior research fellow at the IWE. His main research and education fields are the structure, changes and prospects of the budget of the enlarged European Union (EU), with special emphasis on structural policy-related issues, as well as the role of French-German relations in the European integration process. He got his PhD degree with his thesis in this latter topic in 2001 at the Budapest University of Economics. In 2000-2001, he represented Hungary in the Villa Faber Group on the Future of the EU. In 2001, he got the "Young Researcher Award" of the Hungarian Academy of Sciences. In 2001-2002, he was secretary general of the Hungarian Section of the European League for Economic Cooperation. Since 2002, he is leader of the research group on the EU budget after 2007 of the Task Force for Integration and Development Policy. In 2003, he was a member of the Center for EU Coordination and Communication (working before the referendum on EU accession). He has been a member of Team Europe Hungary since September 2004.

Tania Zgajewski

Tania Zgajewski has a Master in Law and a Master in European Studies from the Catholic University of Louvain-la-Neuve and the University Faculties Saint-Louis (Belgium). She has worked for various international institutions (World Bank, EC Commission). She has been a consultant of the EC Commission for trade in telecommunications matters. She is presently the Director of HERA/CEEI, an association undertaking legal studies for administrations and corporations in WTO, European and telecommunications matters. She is also a senior researcher at the University of Liège (Belgium). She has published, as author or co-author, many papers written on information society topics (telecommunications, audiovisual, data protection) or European affairs (institutional matters, social policy, etc.).

Reforms in Lisbon Strategy Implementation: Economic and Social Dimensions

Organised by IMO and Friedrich Ebert Foundation
Zagreb, Hotel Esplanade, 3 May 2006

PROGRAMME

8:30 - 9:00	**Registration of the conference participants**
9:00 - 9:30	**Introduction**, welcome addresses Mladen Staničić, Director, Institute for International Relations, Zagreb Mirko Hempel, Head of the Office, Friedrich Ebert Stiftung Zagreb Jürgen Staks, Ambassador of the Federal Republic of Germany in Croatia
9:30 - 11:00	**Panel I:** ***Lisbon Strategy*** ***- Framework for social reform agenda in the EU*** **Moderator**: JOSIP JURATIVIĆ, MP Germany **Speakers**: Christa Randzio-Plath, University of Hamburg (former member of European Parliament) Mariusz-Jan Radlo, Gdansk Institute for Market Economics and & Warsaw School of Economics Tania Zgajewski, University of Liége and HERA
11:00 -11:30	**Break**

11:30 - 13:00 **Panel II**: ***National Reform Programmes - Lisbon matters?***

Moderator: JOHANNES JUNG, MP Germany

Speakers:

Matevž Hribernik,
Institute of Macroeconomic Analysis and Development, Ljubljana

Tamás Szemlér,
Institute for World Economics,
Hungarian Academy of Sciences, Budapest

Martin Potůček,
Centre for Social and Economic Strategies,
Charles University, Prague

Discussion

13:00 - 14:00 **Break**

14:00 - 15:30 **Panel III: *Croatia - between Copenhagen criteria and Lisbon agenda***

Moderator: NEVEN MIMICA, MP Croatia

Speakers:

Martina Dalić,
State Secretary, Central Office for State Strategy, Zagreb

Višnja Samardžija,
Institute for International Relations, Zagreb

Ana Miličević Pezelj,
Union of Antonomuos Trade Unions of Croatia

Discussion

15:30 - 16:00 **Conclusions**, closing of the Conference